Successful Retirement Living

408.414.5050 info@financialknowledge.com www.financialknowledge.com

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In addition to a college degree, many of the instructors also maintain a CFP® (Certified Financial Planner) credential or are currently enrolled in the CFP® Professional Education Program. Our certified instructors are required to meet annual continuing education requirements in the financial planning field.

Financial Knowledge

Financial Knowledge Network, LLC
P.O. Box 8756
San Jose, CA 95155-8756
www.financialknowledge.com

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Course Description

Participants will be able to plan for a successful transition from work life into a comfortable and secure retirement

Audience

Recommended for those who want to take charge of their financial future as they approach or enter retirement.

Learning Outcomes

- Plan out the types of goals desired for retirement
- Uncover four important retirement income sources
- Learn how Social Security benefits are calculated
- Identify five types of annuities and key selection criteria
- Assess and project retirement income needs and expenses
- Learn how to analyze risk and manage a dynamic retirement portfolio
- Discover real estate options for retirees like refinancing, remodeling, and relocating
- Learn how to research a retirement community
- Make more-informed decisions about healthcare, long-term care, and aging issues
- Make wise insurance choices to protect assets and income
- Be better prepared for selecting appropriate executors and beneficiaries
- Give intelligently and strategically to charities and family members

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Retiring Today

Three Phases of Retirement

Active/Early Years	Middle Years	Later Years
Adjusting to retirement life. You typically spend the most time in this stage.	Still active but spending less than before.	Less active. Health care expenses may increase.

In the coming years, due to changing demographics, new employment perks may include a phased-in retirement package in which an employee transitions from full-time to part-time work while retaining employee benefits.

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Imagine you are going to retire tomorrow. Chart how you plan to spend your time.

Area	Percentage of Time
Family	
Friends	
Health & Body	
Homemaking	
Career/Work	
Money	
Education	
Religion	
Public Service	
Personal (hobbies, travel, etc.)	

What would fill your time the first week?

What would fill your time the first month?

What would fill your time the first year?

Goals in Retirement

It is important to think about how you will spend your time and energy in retirement. There are many activities you may choose to do including:

- Focus on Family
- Start a Business
- Go Back to School
- Start a New Career
- Volunteer

Make a List

Start by making a list of things and activities you want to focus on in retirement. Setting written goals provides a road map to the life you desire. Those who plan are more likely to achieve their desired goals.

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Fill in your goals in the worksheet. Review and update your goals annually.

Specific Goal	Target Date (Month/Year)	Dollars Needed (If Any)
Retirement:		
Housing:		
Children/Family:		
Hobbies:		
Volunteering:		
Traveling:		
Employment:		
Major Purchases:		
Physical Activities & Fitness:		
Other:		

Social Security

Social Security started in 1935 as an insurance program to provide a financial cushion for American workers after they retired. The program has been refined throughout the years to include spouses, ex-spouses, widows, dependent children of workers who die prematurely, and disabled workers and their families.

How Retirement Benefits Are Calculated

To be eligible for Social Security using your own work record, you need to work the equivalent of 10 years. Benefits are based on average annual earnings during the highest paid 35 years of work. A zero is used in the calculation for every year less than 35 years that an individual works.

The longer you wait to collect benefits, the higher the benefits will be. There is a maximum benefit amount that can be collected. The maximum benefit for a worker taking Social Security at their full retirement age in 2017 is $2,687[1].

In order to prepare for retirement, most financial planners recommend assuming Social Security can replace no more than 20% of your salary. The remaining retirement income will have to come from employer retirement plans, IRAs, and other savings.

If an individual is under the full retirement age, $1 in benefits will be withheld for every $2 in earnings above a specified amount. In 2017, the specified amount is $16,920 per year ($1,410 per month). The year an individual reaches full retirement age (i.e. applies only to the earnings for months prior to attaining full retirement age), $1 in benefits will be withheld for every $3 in earnings above a specified amount. In 2017, that specified amount is $44,880 per year ($3,740 per month). There is no limit on earnings beginning the month an individual attains full retirement age.

Reviewing Earnings History

Income for every year you work should be recorded with the Social Security Administration. This information is received from IRS tax records. Visit **www.socialsecurity.gov** to sign up for a “my Social Security online” account. This account will allow you to download your Social Security statement right from home, It provides a forecast of the benefits you can expect to receive at retirement.

[1] https://www.ssa.gov/news/press/factsheets/colafacts2017.pdf

Eligibility

The eligible age to receive full retirement Social Security benefits depends on your year of birth. It is possible to start receiving checks as early as age 62. However, these permanent benefits will be 20%-30% less than if you wait to receive checks at the full retirement Social Security age. The chart below summarizes these provisions.

Year of Birth	Retirement Age		Age 62 Benefit Reduction
	Years	Months	
Before 1938	65	0	20%
1938	65	2	20.83%
1939	65	4	21.67%
1940	65	6	22.50%
1941	65	8	23.33%
1942	65	10	24.17%
1943-1954	66	0	25.00%
1955	66	2	25.84%
1956	66	4	26.66%
1957	66	6	27.50%
1958	66	8	28.33%
1959	66	10	29.17%
1960 and After	67	0	30%

At what age will you qualify for full Social Security benefits?

International Agreements

The United States has bilateral Social Security agreements with 20 countries. The agreements eliminate dual Social Security coverage and taxes for multinational companies and expatriate workers. They also improve benefit protection for workers who have divided their careers between the United States and another country. Visit **www.ssa.gov/international** for additional information.

Social Security Benefits for Surviving Spouses

The survivor's benefit is a percentage of the decedent's Social Security benefit. The benefit also depends on the age of the survivor and whether or not there are surviving children under the age of 16. The survivor benefit is generally between 70-100% of the decedent's benefit. The survivor, who is entitled to their own Social Security benefits, is able to take the larger of their benefit or the survivor benefits, not both.

Social Security Benefits for Divorced Spouses

Social Security benefits are available to a person who has been divorced after 10 years of marriage, if the person is at least 62 years of age and the former spouse is entitled to retirement or disability benefits. Benefits are not available to a person who has remarried. The maximum benefit is 50% of the worker's benefit at full retirement age. The person who is entitled to their own Social Security benefits is able to take the larger of their benefit or the divorced spouse benefits, but not both.

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1. **The maximum reduction for receiving Social Security benefits before retirement age is 20%.**

   TRUE FALSE

2. **Although Jill, born in 1940, began receiving a reduced Social Security benefit at age 63, her benefit was increased to the full amount when she turned 65 ½.**

   TRUE FALSE

3. **The original purpose of Social Security was to help an individual have a secure and comfortable retirement.**

   TRUE FALSE

4. **1-in-3 beneficiaries of Social Security are not retirees.**

   TRUE FALSE

5. **Over 2/3 of Americans age 65 and older receive more than half of their retirement income from Social Security.**

   TRUE FALSE

6. **Social Security payments alone will provide a good retirement income for most.**

   TRUE FALSE

7. **Social Security benefits are indexed to inflation.**

   TRUE FALSE

8. **Most corporate pensions, like Social Security, offer cost-of-living adjustments.**

   TRUE FALSE

9. **Benefits based on a spouse's record may be higher than your own.**

   TRUE FALSE

10. **The longer you work and the more you own, the larger your benefit.**

    TRUE FALSE

11. **There is a minimum, but no maximum, Social Security benefit.**

    TRUE FALSE

12. **Social Security benefits are greater relative to pre-retirement income for lower-paid workers than for higher-paid workers.**

    TRUE FALSE

Answers can be found on page 38.

Retirement Plans & Rollovers

Type	Description	2017 Contribution Limits	2017 Catch-Up Contribution (Age 50+)
Employer Plans ▪ Traditional/Roth 401(k) ▪ Traditional/Roth 403(b) ▪ 457	Contributions made with pre-tax dollars grow sheltered from taxes until distribution. Roth contributions are made with after-tax dollars and grow tax-free.	$18,000	$6,000
IRAs ▪ Roth ▪ Deductible ▪ Deductible Spousal ▪ Non-Deductible	Must have earned income to qualify for an IRA. Certain limits apply. Maximum total annual regular contribution to all IRAs is $5,500 in 2017.	$5,500	$1,000
SEPs & Keoghs	Self-employed retirement plans.	25% of income or $54,000 (whichever is less)	$0

Rollover Provisions

If you retire or change jobs, governmental 457, 401(k), and 403(b) plans can be rolled into an IRA or another deferred compensation plan offered through a new employer. Make sure the new plan accepts rollovers. This allows you to choose from a greater number of investment choices as well as consolidate investments within one financial institution.

Direct Rollovers vs. Indirect Rollovers

Direct rollovers allow you to transfer all your funds without having any amount withheld for tax purposes. Retirement funds are transferred directly from an existing retirement plan into another retirement plan or IRA.

With an indirect rollover, a check is issued in your name and the former employer is required by law to withhold 20% for federal taxes. You can claim the 20% as a tax credit when filing your tax return if the 20% is replaced into the retirement account within 60 days. If the funds are not replaced within the 60-day window, additional taxes and penalties (if you are under age 59 ½) would apply.

Required Minimum Distributions

Annual Required Minimum Distributions (RMD) on Traditional IRAs, 401(k)s, and other qualified plans generally must begin the year an individual turns 70½.[2] The first RMD can be deferred, but must be taken no later than April 1st of that year following the calendar year in which the individual turns 70½ to avoid penalties. The IRS refers to this date as the required beginning date. The RMD for any year after an individual's 70½ year, must be made by December 31st of that later year.

If the RMD is not taken by the applicable due date, the IRS penalizes an extra tax equal to 50% of the difference between the amount that should have been withdrawn and the amount actually withdrawn, if any. Note that if an IRA owner dies after reaching age 70½ but before April 1st of the next year, no RMD is required because death occurred before the required beginning date.

The RMD amount is based on the value of an individual's account as of the close of business on December 31st of the prior year. Life expectancy is based on the account holder's age on December 31st of the year in which the money is being distributed.

Calculating Required Minimum Distributions

Divide the balance of each retirement plan, as of December 31st of the prior year, by the applicable life expectancy as of December 31st of the current year. The result is the RMD for the current year. Do this calculation for each retirement account owned in which distributions are required.

Total the RMDs for all IRAs owned; the RMD can be taken for any one or more IRA. RMDs for each retirement plan and inherited IRAs need to be calculated and satisfied separately. You can withdraw more than the RMD if desired, but won't receive credit for the additional amount when determining the RMD for future years.

If the market value of the retirement plan account has decreased such that the RMD (which is based on last year's ending balance) exceeds the entire current account balance, the IRS will allow you to empty the account without being subject to the 50% penalty for not taking the full RMD.

[2] Individuals who continue to work past 70½ can delay the RMD from their current active employer's qualified plan (i.e. pensions, Keogh, 401(k), etc.)

✓ EXERCISE

1. **Rollover tax laws allow an IRA owner 60 days to put money back into an IRA account before the withdrawal is considered permanent and taxable.**

   TRUE FALSE

2. **A company's plan may not accept rollovers.**

   TRUE FALSE

3. **Balances in any amount can be left in a former employer's plan.**

   TRUE FALSE

Answers can be found on page 38.

Other Investments

Annuities

Annuities are a contract with an insurance company. They can be purchased directly from many financial institutions, including life insurance companies and brokerage firms. There is no cap on the amount of money that can be invested in an annuity annually. Assets contributed grow tax deferred until withdrawn. In addition, an investor can transfer money from one annuity to another annuity with no tax consequences. Annuities ensure that the investor will not outlive their assets.

A term-certain provision will guarantee payments for a specific number of years, even after the individual dies and even if the annuity was just purchased. Note that monthly annuity payments under a term-certain will generally be slightly smaller. Look for an annuity that has no surrender charges—fees that must be paid back to the firm issuing the annuity if money is withdrawn early.

Carefully research the insurance company's financial health before investing in an annuity. The following are websites that rate insurance companies:

www.ambest.com **www.weissratings.com**

You can compare annuity products at **www.immediateannuities.com**.

✓ EXERCISE

1. **An individual is limited in the amount of money that can be invested in a tax-deferred annuity annually.**

   TRUE FALSE

2. **An annuity can be transferred tax-free to another annuity.**

   TRUE FALSE

3. **Social Security income is a type of life-annuity payout.**

   TRUE FALSE

Answers can be found on page 38.

Type of Annuities

There are many different types of annuities depending on when payments begin and where the money will be invested. Here are some popular annuity types.

- **Immediate Annuity:** Provides an immediate income stream until death with payments that begin soon after the contract is issued.
- **Deferred Annuity:** Provides income stream at a later time (generally retirement).
- **Fixed Annuity:** Provides a guaranteed rate of return that is fixed for either a specific time period or for life. This type of annuity may not keep up with inflation.
- **Variable Annuity:** Invests in a variety of investments including stock, bond, and money markets. Be careful of variable annuities, which typically have high annual fees and surrender charges. Consider only variable annuities that have very low fees and no surrender charges. Moreover, unless you can hold a variable annuity for longer than fifteen years, the fees and tax hit would likely leave you with less than having invested in a competitive mutual fund.
- **Equity-Indexed Annuity:** Funded with either a lump sum or a series of premium payments. The insurance company typically guarantees a minimum rate of return, usually based on a stock market index such as the S&P 500. Like deferred annuities, after a time period, you may start to receive payments from the insurance company. When researching Equity Indexed Annuities consider: the participation rate (how much of the index's return do you receive), administrative expenses, interest rate caps (this allows the insurance company to retain income above the cap level), surrender charges, and the indexing method (which measures the gains in the index on an annual basis).

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Match the type of annuity listed with the description that fits best.

A. Immediate
B. Deferred
C. Fixed
D. Variable
E. Equity-Indexed

1. Bob is getting ready to retire within 2 years and needs income currently.

A B C D E

2. Margie is in her 50s and is maxing out her employer's retirement plan and IRA.

A B C D E

3. Julie is a conservative investor and asset preservation is important to her.

A B C D E

4. Joe doesn't need a current income and would like to delay taxes on the earnings.

A B C D E

5. Julio wants to invest in stock with minimal risk and guaranteed returns.

A B C D E

6. Will wants to achieve greater growth potential.

A B C D E

Answers can be found on page 38.

More Investments

In addition to retirement accounts, most individuals have investments in other areas over the years. The amounts (if any) in the various asset classes will vary based on an individual's risk tolerance.

Asset Class	Investment Type
Cash & Cash Equivalents	Savings Accounts
	Money Market Accounts
	Certificates of Deposit (CDs)
	Treasury Bills
Bonds	Savings Bonds
	Treasury Bonds
	Federal Agency Bonds
	Municipal Bonds
	Corporate Bonds
Stocks	Large-Cap
	Mid-Cap
	Small-Cap
	Growth
	Value
	International
Real Estate*	Vacation/Second Home
	Rental Properties
	Real Estate Investment Trusts (REITs)

** Most financial professionals do not consider a primary home to be an investment since it is a personal-use asset and portions cannot be sold to generate cash.*

Fund Types and Terminology

Common categories and types of mutual funds in employer retirement plans are below.

Money Market Funds	
Short-term corporate or government debt generally maturing in less than ninety days	
Bond Funds	
GIC (Guaranteed Investment Contracts)	Fixed interest rate insurance contracts with terms of one to five years
Stable Value or Short-Term	Bonds that mature within one to four years
U.S. Government	Direct obligations of the U.S. Government and various agencies
Junk Bond/High Yield	Debt securities that have ratings below investment grade (BB or lower)
Balanced or Hybrid Funds	
Stocks, bonds, and sometimes cash.	
Stock Funds	
Index	Securities in a particular index in proportion to their weight in the index
Large-Cap	Large companies with market caps over $8 billion
Mid-Cap	Midsize companies with market caps of $1.5 billion to $8 billion
Small-Cap	Small companies with market caps of $1.5 billion or less
Growth	Stocks with significant growth potential with earnings, sales, or return on equity
Value	Stocks that are unpopular, undervalued or inexpensive
Blend	Growth and value stocks
Aggressive Growth	Small and midsize companies
Growth and Income/ Equity Income	Companies that offer growth potential as well as pay dividends.
Sector	Highly specialized stocks
Socially Responsible	Companies restrict involvement in certain activities and foster good practices
Foreign or International	Securities outside of the United States
LifeCycle Funds (Designed to Be an All-in-One Investment)	
Stocks, bonds, and funds in allocations that fit investors at different ages or target dates	

Retirement Finances

Estimating Retirement Income

Retirement income can be predictable or variable. Predictable types of retirement income include pensions and Social Security. Variable types of income include income from investments and retirement accounts.

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List the sources of income you expect to have in retirement.

Predictable Income Sources	Variable Income Sources

Estimating Retirement Expenses

Plan to provide financial support for a long retirement. Determine your needs first, then review how much expenses will cost. Keep in mind that senior discounts may be available for certain expenses you incur (when traveling abroad, senior discounts may be referred to as *pensioners' rates*).

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Circle all the expenses that should be the same or higher for your household in retirement.

Adult Children Expenses
Appliances
Automobile Gasoline & Oil
Banking & Investment Fees
Books/Music/Movies
Cable/Satellite
Car Insurance
Car Loan or Lease Payments
Car Repairs & Maintenance
Charitable Contributions
Clothing
Commuting
Computers & Software
Cosmetics
Country Club Dues
Credit Card Payments
Dental
Disability Insurance
Dry Cleaning & Laundry
Earthquake/Flood Insurance
Education
Electronics
Entertainment
Eye Care
Facials & Massages
Garbage & Recycling
Gas & Electric Utilities
Gifts
Groceries
Haircuts
Health & Fitness
Healthcare
Health Insurance
Hobbies
Home Equity Loan or Line of Credit
Home Fuel Bills
Home Furnishings
Home Maintenance and Upkeep
Home Remodeling
Home Repairs
Homeowner's Insurance
Homeowner's Association Dues
Income Taxes
Installment Loans
Landscaping & Gardening
License Fees
Life Insurance
Long-Term Care
Manicures & Pedicures
Meals Out
Mortgage
Movies & Shows
New Business
New Career
Parking
Personal Care Items
Pets
Pocket Money
Prescriptions
Property Taxes
Public Transportation
Rent
Roadside Assistance
Savings/Investments
Security Alarm Systems
Sporting Events
Subscriptions
Support to Others
Telephone & Internet
Toiletries
Travel
Umbrella Liability Insurance
Vacations
Water & Sewer

Calculators for Retirement

It is important to continually calculate at least once a year how much you need to save for a secure retirement and to see if you're on track.

Performing retirement planning calculations involves many unknowns. Make sure to run worst-case as well as best-case scenarios. Moreover, there is a wide range in quality with retirement calculators. Many calculators assume a constant investment and inflation return each year.

When performing calculations, assume from 80–100% of your pre-retirement income will be needed in retirement. Studies continually show that since people are living longer and are healthier, most individuals desire to maintain the same standard of living in retirement as they had during their working years.

Contact former employers to determine if you are eligible for any retirement benefits. Get benefit estimates in writing.

Several years before retiring, compile a retirement spending plan using the latest income and expense information.

Online Retirement Calculators

The following websites offer online retirement calculators:

www.fidelity.com

www.financialengines.com

www.kiplinger.com

www.money.com

www.quicken.com

www.aarp.org

www.marketwatch.com

www.finra.org

www.troweprice.com

www.vanguard.com

Online Retirement Planning Advice

There are also websites that offer retirement planning advice tools including:

www.financialengines.com

www.morningstar.com

Review the privacy policy before using free online financial planning tools. Financial Knowledge does not specifically endorse any of the websites or products listed above and does not recommend any one over the others. Retirement planning calculator and advice tool results can vary due to the many assumptions and variables involved.

A retirement planning calculation worksheet is available in the Appendix.

Reduce Living Expenses

If your retirement calculations suggest that you need to make other adjustments with your retirement planning, you can also consider the following:

- Make Lifestyle Adjustments
- Save More Money
- Spend More Wisely
- Pay Off Car Loans and Reduce Home Mortgage
- Defer Major Purchases
- Scale Back Vacations
- Downscale the House
- Move to a Cheaper Geographic Area
- Go Back to Work or Work Longer

Organize Financial Records

Organize your financial situation. Consider using a software package. Include:

- List of vital documents and their location for safekeeping
- Financial statement of assets and liabilities
- Spending plan
- List of all financial accounts and account numbers (insurance policies, credit cards, investments, loans, etc.)

Seeking Professional Financial Assistance

Transitioning into retirement presents many financial decisions. Each financial decision can impact many areas of life, including:

- Taxes
- Income Needs
- Estate Planning

Most people find it difficult to make complex financial decisions without some professional help. Types of financial professionals include:

- Financial Advisors
- Financial Planners
- Portfolio Managers
- Brokers
- Insurance Agents
- Tax Specialists
- Attorneys

Although some may claim to be experts in various areas of personal finances, no one person can wear all these hats well. Depending on your needs, it may be necessary to use several different financial professionals.

Determine Income Needs

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Make a list of your current assets to asses your income needs.

Asset	Date Distributions May Begin	Expected Income Stream

More Than Enough

If the expected income stream exceeds projected expenses, a retiree must determine which assets to leave untouched for continued growth.

Not Enough

If the expected income stream is less than projected expenses, consider reducing expenses or taking on part-time work to supplement income.

Drawdown Factors

How much to draw down from a portfolio depends on a variety of factors:

Life Span	People today live much longer than previous generations
Include Everyone	Income may be needed to support other family members
Spending Habits	Try living on less income without compromising your quality of life
Returns	Portfolio returns will directly impact the amount available at any given time, have a well-diversified portfolio

Managing a Dynamic Retirement Portfolio

Most people think that once they have transitioned their assets from their "pre-retirement portfolio" into their "retirement portfolio" that all the work is done. It's time to sit back and never look at their retirement portfolio again, right? WRONG!

Managing a retirement portfolio is a dynamic process. Periodically, a retiree will need to liquidate certain assets and reinvest in other areas. Just as in the pre-retirement years, your needs may change.

Three Steps to Managing (and Enjoying) a Dynamic Retirement Portfolio

1. Assess Risk Tolerance
2. Reallocate Portfolio
3. Utilize Income

Portfolio Considerations

Life Span	Plan to set up an investment plan for age 90 or beyond. Gradually start diversifying investments as retirement approaches, rather than immediately upon retiring.
Having Enough	Make sure to have an adequate amount of money to live on. Develop a systematic withdrawal plan that will provide a reliable, steady stream of income, even when markets are down, as well as maintaining purchasing power for later years. Many financial planners suggest drawing down assets at a rate no greater than 3-5% annually during retirement.
Diversify	Make sure to have several different types of assets to draw upon. Figure out an appropriate mix of assets first and then determine which assets will generate the necessary income needed.

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1. **Josie has $600,000 in employer retirement plans and $200,000 in IRAs. Assume Josie wants to draw down no more than 4% of her retirement assets annually. What amount would be the maximum she should withdraw annually?**
   A. $5,000
   B. $75,000
   C. $32,000
2. **Jim is retiring in two years at age 65. He anticipates living another 25 years. His time horizon for investing is**
   A. Less than 1 year
   B. 2 years
   C. 5 years
   D. 25 years
3. **An appropriate retirement mix for Jim, assuming he is a conservative investor who is very nervous about recent stock market volatility, should include**
   A. Stocks, Bonds, and Money Market Funds
   B. Bonds and Money Market Funds Only
   C. Money Market Funds Only
4. **Retirees should consider holding some portion of their retirement funds in stocks to protect against inflation**

   TRUE FALSE

Answers can be found on page 38.

Assess Risk Tolerance

Risk tolerance is the ability to tolerate a higher risk in exchange for higher returns. The risk involved is that an investor may also lose a larger amount of money.

Most people have a good feel for their own risk tolerance level. In order to assess your risk tolerance level, try one of the many risk tolerance surveys available on the internet:

http://www.bankrate.com/finance/investing/risk-tolerance-quiz.aspx

http://njaes.rutgers.edu:8080/money/riskquiz/

http://www.learnvest.com/knowledge-center/quiz-whats-your-risk-tolerance/

Risk Types

Ultra Conservative	No tolerance for losing any capital to market fluctuations
Conservative	Dislikes the idea of losing any capital to market fluctuations
Average	Willing to bear some risk to improve portfolio returns
Aggressive	Accepts a higher amount of risk to improve portfolio returns
Extremely Aggressive	Willing to risk it all in exchange for the potential of sky-high returns

Reallocate Portfolio

"Five Bucket" System

The "Five Bucket" system is a popular investment plan for retirees that:

- Allows an individual to continue to invest in stocks for long-term appreciation
- Helps an investor avoid selling stock investments when the market is down

The idea is that over time, a retiree will periodically empty all or a portion of each bucket into one of the less risky buckets. During retirement, a retire will draw day-to-day income from the bottom cash bucket and it will constantly require replenishing. This is accomplished through the process of reallocation of assets.

Cash Bucket

The cash bucket is for everyday living expenses. It will need to be replenished periodically with income from other investments. Income from a pension and Social Security can flow into this account.

Assets are initially divided into five buckets (in descending order of risk):

Bucket	Contents
Stocks	All individual and mutual fund stocks (need a 5-10 year time horizon)
Long-Term Bonds	Bonds with 10+ years to maturity
Intermediate Term Bonds	Bonds with 3 - 7 years to maturity
Short Term Notes	Notes with 3 years or less to maturity
Cash	Money Market Account

Hold enough assets between the cash and bond buckets to cover at least 5 years of living expenses with 1-2 years worth of living expenses in the cash bucket alone. More conservative investors should consider increasing the cash and bond bucket amounts to 10 years worth of living expenses.

✓ EXERCISE

1. **Martha and John are ultra conservative investors. How much income should they hold in their cash bucket?**
   A. 1 year of income
   B. 2 years of income
   C. 6 months of income
2. **In addition to their cash bucket allocation, how many more years of bond and short-term notes should Martha and John hold?**
   A. 4 years
   B. 6 years
   C. 8 years
3. **Suzette is a moderate investor. How much income should she hold in her cash bucket?**
   A. 1 year of income
   B. 2 years of income
   C. 6 months of income
4. **Charlie is an aggressive investor. What is the minimum amount of time he should have before investing in stocks?**
   A. 3 years
   B. 5 years
   C. 10 years

Answers can be found on page 38.

Choosing Where to Live

In retirement, you have two choices: to stay in a current home or move elsewhere. Consider the following when choosing where to settle during retirement:

- Location of Family Members
- Personal Need for Stability
- Lifestyle Changes
- Health Considerations
- State and Local Taxes

Stay	Remodel
	Refinance
	Tap Equity
Move	Retirement Havens
	Retirement Facilities

Plan Ahead

Remember, just like all things in retirement, living needs can change over time. Plan ahead and consider where you would like to live should you require assistance for health reasons in the future.

Remodeling

Set a Reasonable Budget

If choosing to stay in your current home and want to make a few upgrades, consider the following when budgeting for the remodel:

- How does the home compare to others in the neighborhood?
- Will the house end up being the best house on the block? If so, remodeling costs may be difficult to recoup should the need to sell arise.
- Have a real estate agent prepare two comparative market analysis (CMA) of the home: one before the remodel and one after the proposed remodel.

Making Improvements

Select and meet with a good architect and contractor to discuss the project.

Consider value of improvements vs. cost of improvements:

Low Cost, High Value

- Painting (Both Interior and Exterior)
- Fresh Landscaping
- Updated Light Fixtures
- New Carpeting

High Cost, High Value

- Bathrooms
- Kitchens

High Cost, Low Value

- Swimming Pools

Refinancing

Refinancing can allow a homeowner to lower their monthly mortgage payment, consolidate debt, or convert home equity to cash

- Compare rates from at least five different lenders
- Be aware of all transaction costs. If not planning to stay in the home long-term, refinancing may end up costing more than its value
- Consider loan restructuring or modification as transaction fees may be lower

Apply the break-even formula to each loan considered:

Divide the estimated closing costs on the new loan by the amount saved each month (after tax) on the mortgage payment. The result will be the number of months required to stay in the home in order to break even.

Tapping Home Equity

Trading Down to a Smaller Home

This option will allow a homeowner to unlock part of the former home's value. Keep in mind that there are broker's commissions to pay. In addition, when buying a new, smaller home, there will be closing, moving, and other costs.

Home Equity Loan or Line of Credit

It may be more difficult to obtain a loan or line of credit in retirement since it is necessary to prove to the lender there is an ability to repay the loan. It may make sense to set up a line of credit before retiring.

Reverse Mortgages

Defined

A reverse mortgage is just the opposite of a traditional home loan; the lender pays the homeowner. A reverse mortgage allows the ability to take equity out of the home in a lump sum, a credit line, or a monthly amount. Payments to the homeowner from a reverse mortgage are not taxable income. The payments do not affect Social Security or Medicare benefits, although eligibility for Medicaid and Supplemental Social Security income may be affected. Moreover, a reverse mortgage does not need to be paid back until the homeowner dies, the home is sold, or the homeowner ceases to live in the home for at least 12 months.

Qualifying

To qualify, the homeowner must generally be 62. The older the homeowner, the higher the amount that can be borrowed. Watch out for high closing costs with reverse mortgages. Also note that equity that could have been left to heirs will be reduced or non-existent, depending on how much equity is borrowed. Additionally, please note that some reverse mortgages include "shared equity" or "shared appreciation" fees. These fees may entitle the lender to a percentage of the remaining value of the home.

Factors Affecting Amount Borrowed

The amount that can be borrowed with a reverse mortgage depends on several factors:

- Age
- Current Interest Rates
- Appraised Value of the Home
- Equity in the Home

Helpful Resources

Consider meeting with a "Preferred Counselor" from the National Center for Home Equity Conversion (NCHEC). Visit the NCHEC website **www.reverse.org** or **http://www.aarp.org/money/credit-loans-debt/reverse_mortgages/** for more information.

Retirement Havens

Publications, including *Money* and *Fortune* magazines, release an annual retirement-planning edition that includes the best places to retire. The following websites are also useful for determining places to retire within the United States

Sterling's Best Places

This website provides profiles of over 3,000 cities to live, work, and retire comparing housing, costs of living, crime, education, economy, health, and climate. Any two cities can be compared and displayed side-by-side. **www.bestplaces.net**

Senior Ark

This website, by and for seniors, contains links, tips, and other resources to "help seniors cope with the inevitable challenges that come in retirement". **www.seniorark.com**

Living Abroad

There are also many websites that compare overseas retirement havens. Keep in mind that expatriate retirees are still required to pay U.S. income taxes on retirement benefits.

Explore a destination through various vacations and visits during different times of the year. Once a desirable location is discovered, live there temporarily for several months before making a decision to move there. **www.internationalliving.com**

Retirement Facilities

In order to have more control over your living situation, thoroughly research any retirement or eldercare facility in advance of needing assistance. Compare several facilities to find one that best meets your needs.

On-Site Visit

Do not rely on a guided tour, marketing brochure, or other advertisements, as they are typically too general or misleading. Visit the facilities at different times of the day and evening. Meet and interview the administrators, nurses and residents. Certified Nursing Assistants (CNAs) have the most contact with residents. Take a list of questions and be certain to have all of them answered to your satisfaction.

Financial Records

Ask to review the latest financial statements and review them with an experienced accountant. Look for a facility that has top financial ratings from a rating service such as Standard & Poor's or the Continuing Care Accreditation Commission.

Official Facility Review

Request a copy of the annual federal and state inspection reports. The federal report, conducted by CMS, provides information on any complaints filed and/or violations of federal standards. Find out from the state if any complaints have been made or the facility has ever been fined for health and safety problems.

Costs

Ask for a detailed list of all charges for activities and care. Find out what fees are covered, the cost of each additional service, and if the entrance fee is refundable.

Contract Understanding & Agreement

Determine under what situations an individual will be discharged. Many facilities will discharge individuals who require wheelchair transfer assistance, wander, need medicine intravenously or help with incontinence.

Medicaid & Medicare Approved Facilities

Information on Medicaid and Medicare certified nursing homes throughout the United States is available online at **www.medicare.gov**. Included is information on:

- Payments
- Patient Rights
- Nursing Home Checklist

Insurance Needs

Make sure to have adequate insurance protection throughout retirement.

Health Insurance

Many employers continue to phase out or reduce retiree healthcare coverage. There is no guarantee of medical insurance for retirees. Moreover, those employers that do continue to provide retiree health benefits are increasing the retiree cost-sharing portion and/or increasing the minimum service requirements for benefit qualification. Retirees who have healthcare coverage should plan ahead in case coverage is terminated.

If you do not receive retiree healthcare coverage, COBRA is a federal law that allows an employee to continue health insurance with a former employer for up to 18 months after leaving a job.

Medicare

Since 1966, Medicare has been providing insurance for:

- People age 65 and older
- Individuals of any age with permanent kidney failure
- Certain disabled people under age 65

Different Parts of Medicare

The different parts of Medicare help cover specific services

A. Medicare Part A (Hospital Insurance)

1. Helps cover inpatient care in hospitals
2. Helps cover skilled nursing facility, hospice, and home health care

B. Medicare Part B (Medical Insurance)

1. Helps cover doctors' and other health care providers' services, outpatient care, durable medical equipment, and home health care
2. Helps cover some preventative services to help maintain your health and to keep certain illnesses from getting worse

C. Medicare Part C (Medicare Advantage)

1. Offers health plan options run by Medicare-approved private insurance companies
2. Medicare Advantage plans are a way to get the benefits and services covered under Part A and Part B. Most cover prescription drugs (Part D)
3. Some Medicare Advantage Plans may include extra benefits for an extra cost

D. Medicare Part D (Prescription Drug Coverage)

1. Helps cover the cost of prescription drugs
2. May lower your prescription drug costs and help protect against higher costs
3. Run by Medicare-approved private insurance companies

Understanding Supplemental (Medigap) Policies

Medicare pays for many, but not all, health care services and supplies. Medigap policies, sold by private companies, can help pay some of the health care costs that Medicare doesn't cover, like copayments, coinsurance, and deductibles.

Note that Medigap policies are sometimes referred to as *Medicare Supplement Insurance Policies* in the Medicare literature.

If you have Medicare and you buy a Medigap policy, Medicare will pay its share of the Medicare-approved amount for covered health care costs. Then your Medigap policy pays its share. You have to pay the premiums for a Medigap policy.

Every Medigap policy must follow Federal and state laws designed to protect you, and it must be clearly identified as *Medicare Supplement Insurance*. Insurance companies can sell you only a "standardized" policy identified in most states by letters A–N. All policies offer the same basic benefits but some offer additional benefits, so you can choose which one meets your needs.

Different companies may charge different premiums for the same policy. Be sure you're comparing the same policy as you shop for coverage. *See the Appendix for more information on Medigap policies.*

Enrolling in Medicare

If you are already getting Social Security benefits, in most cases you will automatically get Medicare Part A and B on the first day of the month you turn 65.

If you aren't getting Social Security (for example, because you're still working) and you want Part A or B, you will need to sign up. There are several different enrollment periods that Medicare recipients will want to keep in mind:

1. Initial Enrollment
2. General Enrollment
3. Special Enrollment

Initial Enrollment

You can sign up when you're first eligible for Part A and/or Part B during your Initial Enrollment Period. When you turn 65, you can sign up during the 7-month period that begins 3 months before the month you turn 65, and ends 3 months after the month you turn 65. See the chart below.

3 Months Before the Month You Turn **65**	**2 Months Before** the Month You Turn **65**	**1 Month Before** the Month You Turn **65**	**The Month You Turn 65**	**1 Month After** You Turn **65**	**2 Months After** You Turn **65**	**3 Months After** You Turn **65**
Sign up early to avoid a delay in coverage. To get Part A and/or Part B the month you turn 65, you must sign up during the first 3 months before the month you turn 65.				If you wait until the last 4 months of your Initial Enrollment Period to sign up for Part A and/or Part B, your coverage will be delayed. See below.		

Source: Medicare and You, www.medicare.gov

You can apply for Part A and Part B at **www.socialsecurity.gov/retirement**. Note that Medicare premiums are withheld from your social security checks if you are currently receiving Social Security payments.

General Enrollment

If you didn't sign up for Part A and/or Part B when you were first eligible, you can sign up between January 1–March 31 each year. Your coverage will begin July 1st. You may have to pay a higher premium for late enrollment

If You Sign Up During These Months	**Your Coverage Will Begin On**
January	July 1
February	
March	

Special Enrollment

If you didn't sign up for Part A and/or Part B when you were first eligible because you're covered under a group health plan based on current employment, you can sign up for Part A and/or Part B:

- Any time that you or your spouse are working and you're covered by a group health plan through your employer **OR**
- During the 8-month period that begins the month after employment ends

Usually, you don't pay a late enrollment penalty if you sign up during a Special Enrollment Period. COBRA and retiree health plans aren't considered coverage based on current employment. You are not eligible for a Special Enrollment Period when that coverage ends. To avoid paying a higher premium, make sure you sign up for Medicare when you're first eligible.

Understanding Premium Penalties: Part A

If you don't sign up for Part A when you're first eligible, you may have to pay a penalty equal to 10% of the Part A premium. The 10% premium penalty applies no matter how long you delay Part A enrollment. You will have to pay the premium penalty for twice the number of years you could have had Part A but didn't sign up. For example, if you delay enrollment for 2 years, you must pay the 10% premium penalty for 4 years. You usually don't pay this late enrollment penalty if you sign up during a Special Enrollment Period.

Understanding Premium Penalties: Part B

If you don't sign up for Part B when you're first eligible, you may have to pay a penalty to get it later. For each 12-month period you delay enrollment in Part B, you will have to pay an extra 10% of the Part B premium. In most cases, you will have to pay that penalty every month for as long as you have Part B. Note: You usually don't pay this late enrollment penalty if you sign up during a Special Enrollment Period.

Understanding the Part D Penalty

If you decide not to join a Medicare drug plan when you're first eligible, and you don't have other creditable prescription drug coverage, you will likely pay a late enrollment penalty. Creditable prescription drug coverage is coverage (for example, from an employer) that's expected to pay, on average, at least as much as Medicare's standard prescription drug coverage. If you're subject to the penalty, you may have to pay it each month for as long as you have Medicare drug coverage.

Long-Term Care Insurance

Medicare covers nursing home and home health care on a very limited basis. Since people today are living well into their 80s and beyond, it is prudent to consider the purchase of a long-term care policy. Long-term care insurance can help provide for potentially increasing health care needs as an individual ages.

Considerations

People in their 50s and 60s should consider long-term care insurance if they:

- Will not be able to afford care in their elderly years
- Have a small family that would not be able to care for them
- Have family members who live far away

Before Purchasing

Before purchasing long-term care insurance:

- Research the insurance company, buy only from stable companies
- Make certain the policy is a guaranteed renewable policy with inflation protection
- **Consider the Policy's Benefits. Be Certain It:**
  - Combines home care and nursing home care
  - Does not require a hospital stay before benefits begin
  - Pays for 2/3—3/4 of the daily rate at nursing homes in your geographic area. (U.S. average is $176 per day and varies widely by region[3])
  - Covers cognitive impairment—in which people may be able to perform activities but must be reminded to do so. Alzheimer's disease must be explicitly covered

[3] *Source: MetLife Mature Market Institute, www.maturemarketinstitute.com*

Estate Planning Basics

Estate planning tries to provide a master plan for the disposition of your assets. Assets are disposed of at death and may also involve lifetime transfers of property.

Estate planning is valuable for a variety of reasons:

- Provides for the welfare of dependents
- Minimizes taxes
- Maximizes amount of wealth passed on to beneficiaries
- Specifies beneficiaries for each asset
- Ensures sufficient liquidity at death to settle and close the estate
- Plans for asset management and income in case of disability

Executor

The executor of the will is responsible for settling all the affairs of the estate. Many people name an attorney, family member, or close friend as executor.

Beneficiaries

Beneficiaries are those individuals designated to receive specific assets or income from assets. Specifying who is to receive certain assets can help resolve possible inter-family conflict before or after an individual's death.

Each asset should list at least one primary and one contingent beneficiary. Continually update beneficiary designations as needed. Events that may prompt an update include:

- Marriage
- Birth of a child
- Divorce
- Remarriage
- Death
- Whenever Changes are Made to a Will

Gifts

A gift is any asset (or income produced from an asset) given without the expectation of receiving something in return.

Gifts can be made before or after death. The general rule of thumb is that all gifts are taxable gifts. There are many exceptions to this rule, however. Generally, the following are not taxable gifts:

- The first $14,000 given to someone during a calendar year
- Any amount of tuition and/or medical expenses paid for someone as long as the check is made payable to the education or medical institution
- Gifts to a spouse
- Gifts to political organizations
- Gifts to charities

Charitable Donations

Charitable donations can be made either before or after death. Before donating to any organization, research the charity and confirm they are a qualified organization. Assign a reasonable fair market value to each item or asset donated and retain written records of the donation for six years.

Suggested Action Items

The following are suggestions only. Whether you wish to take action should be based on your own individual situation and circumstances.

1. Visit **www.ssa.gov** and find out your projected social security payment at retirement

2. Do a retirement savings calculation from two different online retirement calculators

3. Calculate last year's percentage of gross income that was contributed to your retirement plans

4. Determine the aggregate stock to bond ratio in all of your retirement accounts

5. If you currently track your expenses, try and a do a more accurate accounting this coming year. If you don't track your expenses, adopt an easy-to-use method and start getting used to living on a budget

6. Vow to be more diligent about maintaining a healthy body weight, eating right, and getting enough exercise

7. Make a decision as to how you'll handle the perils of needing long-term care and higher health care costs in retirement (insurance, self-insurance, extra savings in your retirement accounts, or a combination)

Appendix

Goals Worksheet

Specific Goal	Target Date (Month/Year)	Money Needed (If Any)
Retirement:		
Housing:		
Children/Family:		
Hobbies:		
Volunteering:		
Traveling:		
Employment:		
Major Purchases:		
Physical Activities & Fitness:		
Other:		

Retirement Planning Worksheet

1. Estimated annual income needed at retirement (today's dollars) __________

2. Estimated Social Security and pension benefits
Visit ***www.ssa.gov*** *for a projection of your annual benefit. Ask your HR department to estimate your expected annual pension in today's dollars. Enter the total of both.* __________

3. Annual retirement income needed from savings and investments
(line 1 minus line 2) __________

4. What you must save by retirement (line 3 times Factor A below) __________

5. What you've already saved

A. IRAs, SEPs & Keoghs	B. Vested amounts in employer retirement plans	C. Other investments (savings, CD, stocks, bonds, mutual funds)	**Total of A, B, and C**

6. Project value of your current savings at retirement
(total amount on line 5 times Factor B below) __________

7. Total retirement capital you need to accumulate (line 4 minus line 6) __________

8. Annual savings needed to reach your goal (line 7 times Factor C) __________

9. Total savings per paycheck needed to reach your goal
(line 8 divided by number of paychecks received per year) __________

10. Amount currently saving per paycheck for retirement __________

11. Additional amount to save per paycheck until retirement
(subtract line 10 from line 9) __________

Retirement Age	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67
Factor A	25.3	24.9	24.5	24.1	23.7	23.3	22.9	22.6	22.2	21.8	21.4	21.0	20.5	20.1	19.6	19.2	18.7	18.2

Years to Retirement	1	3	6	9	12	15	20	25	30	35	40
Factor B	1.03	1.09	1.18	1.29	1.40	1.53	1.76	2.02	2.33	2.38	2.43
Factor C	1.000	0.324	0.155	0.099	0.071	0.054	0.038	0.028	0.022	0.018	0.016

Note: This worksheet assumes that you will live until age 92 (10 years beyond today's 17-year life expectancy for a 65-year old). It also assumes your investments will grow at 8% annually and that inflation will run 5% annually.

Understanding Supplemental Policies

The chart below shows basic information about the different benefits that Medigap policies cover. If a ✓ appears, the plan covers the described benefit 100%. If a percentage appears, the plan covers that percentage of the benefit.

Please Note: You will need more details than this chart provides to compare and choose a policy. For more details, visit www.medicare.gov to view the booklet *Choosing a Medigap Policy: A Guide to Health Insurance for People with Medicare*.

Medicare Supplemental Insurance Plans (Medigap)

Benefits	A	B	C	D	F	G	K	L	M	N[1]
Part A: Coinsurance & Hospital Costs up to 365 Days After Medicare benefits are Used	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Part B: Coinsurance or Copayment	✓	✓	✓	✓	✓	✓	50%	75%	✓	✓[2]
Blood: First 3 Pints	✓	✓	✓	✓	✓	✓	50%	75%	✓	✓
Part A: Hospice Care Coinsurance or Copayment	✓	✓	✓	✓	✓	✓	50%	75%	✓	✓
Skilled Nursing Facility Care Coinsurance			✓	✓	✓	✓	50%	75%	✓	✓
Part A: Deductible		✓	✓	✓	✓	✓	50%	75%	50%	✓
Part B: Deductible			✓		✓					
Part B: Excess Charges					✓	✓				
Foreign Travel Exchange *Up to Plan Limits*			✓	✓	✓	✓			✓	✓
Out-of-Pocket Max							$4,940	$2,470		

Plans E, H, I, and J are closed to new enrollees.

Medigap polices differ in Massachusetts, Minnesota, and Wisconsin.

[1] Plan N pays 100% of the Part B coinsurance with 2 exceptions: Emergency room visits that don't require a hospital stay-up to $50 and some office visits-up to $20.

[2] Plan F also has a high deductible plan option ($2,200 for 2017)

Organizations & Websites

American Association of Individual Investors www.aaii.com	*A not-for-profit corporation formed to help individuals become effective managers of their own assets through education and research.*
American Association of Retired Persons (AARP) www.aarp.org	*Advocacy group for people age 50 and older. Their magazine offers articles on a wide range of retirement topics.*
American Savings Education Council (ASEC) www.asec.org	*ASEC works through its partners to educate Americans on all aspects of personal finance including credit management, college savings, and retirement planning.*
Center for Retirement Research at Boston College http://crr.bc.edu	*Boston College's site on promoting research on retirement issues, transmitting new findings to the policy community and the public, helping to train new scholars, and broadening access to valuable data sources.*
Consumer Federation of America (CFA) www.consumerfed.org	*Dedicated to supporting the concerns of the poor and elderly in consumer concerns that affect them.*
Department of Labor www.dol.gov	*Has publications on pension rights.*
Ed Slott's IRA Advisor www.irahelp.com	*Provides a wealth of information regarding the latest trends and updates regarding IRA investments.*
Employee Benefit Research Institute (EBRI) www.ebri.org	*A non-profit, non-partisan organization committed exclusively to data dissemination, policy research, and education on economic security and employee benefits.*
Financial Planning Association www.plannersearch.org	*Find and research Certified Financial Planners® through this membership organization website.*
Investing in Bonds www.investinginbonds.com	*Includes a calculator to compare yields on taxable vs. tax-exempt (municipal) bonds.*
Investment Company Institute (ICI) www.ici.org	*Research and gain knowledge about mutual funds.*
Medicare www.medicare.gov	*Offers online information and publishes a booklet entitled "Medicare & You" which describes benefits in detail.*
Medicare Rights Center www.medicarerights.org	*Offers information on Medicare, Medigap, and long-term care policies.*
Money www.money.cnn.com	*Features text from Money Magazine, guides to mutual funds, company reports, etc.*

Money Management International www.cccsintl.org	*Provides budget counseling, educational programs, debt management assistance, and more. Counseling is available online, by phone, and in-person, in Spanish and English.*
Morningstar www.morningstar.com	*Provides mutual fund news and analysis, guides to fund families, stock quotes, and general market news.*
National Association of Personal Financial Planners www.napfa.org	*Research and locate financial planners online.*
National Center for Home Equity Conversion www.reverse.org	*Provides information and a calculator for reverse mortgages.*
National Institute on Aging www.nia.nih.gov	*Discusses senior health issues and aging research.*
Pension Benefits Guaranty Corporation (PBGC) www.pbgc.gov	*A federal entity that guarantees pension benefits. They also help locate lost pension benefits.*
Pension Rights Center (PRC) www.pensionrights.org	*A consumer organization that advocates protection of workers' pension rights.*
Plan Sponsor Council of America (PSCA) www.psca.org	*A nonprofit that provides services, best practice information, and advocacy to defined contribution plan sponsors. They specialize in 401(k) issues.*
Quicken www.quicken.com	*Offers portfolio tracking and mutual fund information.*
RoadScholar www.roadscholar.org	*Information about educational travel worldwide.*
Social Security Administration www.ssa.gov	*Provides booklets, online information, and benefit calculations on Social Security benefits.*
Treasury Direct www.treasurydirect.gov	*Offers Treasury securities direct to consumers.*

Answers to Workbook Exercises

Page 7

1. FALSE, it's 30%
2. FALSE, her benefit is permanently reduced.
3. FALSE
4. TRUE
5. TRUE
6. FALSE
7. TRUE
8. FALSE
9. TRUE
10. TRUE
11. FALSE
12. TRUE

Page 10, Top

1. TRUE
2. TRUE
3. FALSE

Page 10, Bottom

1. FALSE
2. TRUE. Under IRS rules, this is known as a 1035 exchange.
3. TRUE

Page 11

1. A
2. B
3. C
4. B
5. E
6. D

Page 20

1. C ($800,000 X .04 = $32,000)
2. D
3. A
4. TRUE

Page 22

1. B
2. C
3. A
4. B

Glossary

Annuity: A contract with an insurance company that guarantees a fixed or variable payment to the holder at a future date. The amount of the payment depends on if it is a fixed or variable annuity. Earnings are allowed to accumulate tax free until withdrawn. Annuities can be purchased through insurance companies and some brokerage firms.

Asset: Something of value owned by a person. A liquid asset is an asset that can normally be converted into cash quickly.

Asset Allocation: Strategically diversifying investments in various categories (i.e. stocks, bonds, money market funds, etc.) to maximize return for a given level of risk.

Balance Sheet: A financial statement that shows assets, liabilities, and net worth. Total assets are equal to total liabilities plus net worth.

Blue-Chip Stock: Stock of a large, well-established company that has a long record of earnings and dividends. The company is also viewed as having sound management, products, and services.

Bond: An IOU or debt obligation that certifies money has been loaned to a government or corporation. Bonds include three important pieces of information: interest rate, maturity date, and the face value or amount to be repaid at maturity. Rating services like Standard & Poor's and Moody's evaluate the credit history and repayment capability of many bonds.

Capital Appreciation: A positive difference between an investment's purchase price and selling price.

Cash Flow Statement: A financial statement showing the income and expenses generated during a period of time. Net cash flow is the difference between income and expenses, called a surplus if it's a positive number and a deficit if it's a negative number.

Certificate of Deposit (CD): A debt instrument issued by a financial institution that pays interest at a fixed rate and matures on a specific date. Note minimum investment, rate of return, how often interest is compounded, restrictions on making withdrawals, etc.

Commission: A fee paid to a broker for an investment transaction.

Corporate Bond: A debt instrument issued by a corporation that pays interest semi-annually at a fixed rate and matures on a specific date.

Compounding: Earning interest on principal plus interest that was earned earlier. Interest can be compounded on a daily, monthly, quarterly, annual, or other basis.

Diversification: A method used when investing to spread risk by putting assets in several different categories (i.e. stocks, bonds, money markets, etc.).

Dividend: A portion of the after-tax earnings that the company's Board of Directors declare and pay to shareholders, usually on a quarterly basis.

Dollar Cost Averaging: A method of investing whereby an investor places a fixed amount of money into an investment at regular intervals (i.e. monthly).

Durable Power of Attorney: A legal document that appoints someone to manage your finances if you become incapacitated.

Expense Ratio: The proportion of assets required to pay annual operating expenses, including management fees of a mutual fund. Expense ratios depend on the size of the fund and on the degree of cost control employed by the manager(s). The expense ratio is independent of any sales fees.

403(b) Plan: A tax-deferred retirement account offered by colleges, universities, elementary schools, high schools, hospitals and other such employers.

Ginnie Mae: A security backed by a pool of home mortgages and guaranteed by the GNMA (Government National Mortgage Association). The interest and principal payments of homeowners pass through to investors who receive a portion of this principal and interest every month. These securities mature on a specific date.

Growth Stock: Stock in a company paying out very little, if any, of the earnings in the form of a dividend. The company retains earnings for future expansion and growth.

Income Stock: Stock in a company that pays out a consistent portion of their earnings in the form of dividends to shareholders.

Indexes: Measurements of price performance of a select group of stock such as Dow, S&P 500, NASDAQ, Russell 2000, or Wilshire 5000. The Dow measures the price performance of 30 Blue Chip Stocks. The S&P 500 Index measures the performance of the largest 400 industrials, 40 utilities, 20 transportation, and 40 financial stocks.

Individual Retirement Account (IRA): A retirement account that an individual can contribute earned wages up to a certain annual maximum. Generally, the earnings on IRAs grow tax deferred; however, with Roth IRAs, earnings may grow tax-free. An IRA can be used to invest in a variety of investments, including stocks, bonds, mutual funds, and money market funds. IRAs are offered through most financial institutions.

Inflation: A rise in prices of goods/services from too many dollars for too few goods.

Interest: Payments made by a borrower to a lender for the use of money.

Investment Objective: The strategy or goal of a particular investment.

Keogh: A tax-deferred pension plan for self-employed people or employees who work for unincorporated businesses.

Laddered Portfolio: A method of investing, usually with debt instruments such as bonds and certificates of deposit, whereby similar amounts of money are placed in securities maturing at different times to hedge against interest rate fluctuations.

Living Will: A document, drafted at a time when a person is legally competent, that declares in advance the forms of medical treatment that will be acceptable if that person becomes incompetent and unable to make medical treatment decisions.

Load Fund: A type of mutual fund that charges a fee for purchasing/selling a fund.

Money Market Account: An account that offers market rates of interest that fluctuate.

Mortgage-Backed Securities: Mortgages pooled by one of several quasi-governmental agencies including Government National Mortgage Association (Ginnie Mae), the Federal National Mortgage Association (Fannie Mae), or the Federal Home Loan Mortgage Corporation (Freddie Mac)

Municipal Bond: A debt instrument issued by a state or local government. This bond pays semi-annual interest and matures on a specific date. The interest income received from most municipal bonds is free from federal tax and generally exempt from state and local taxes in the state where the bond was issued.

Mutual Fund: A diversified investment that pools the funds of many investors. Investors purchase shares of the fund rather than individual investments (i.e. stocks, bonds, etc.).

Net Asset Value: The market worth of one share of a mutual fund. Net asset value is determined by taking a fund's total assets (securities, cash, and any accrued earnings), deducting liabilities, and dividing by the number of shares outstanding.

No Load Fund: A mutual fund that sells its shares without a sales charge.

Return: The expected or actual profit received from an investment, usually expressed as a percentage of the purchase price. Also known as *Yield*.

Risk: The measurable potential of losing or not gaining value. Generally speaking the greater the risk, the greater the potential for return or profit.

Shareholder or Stockholder: An owner of one or more shares of stock in a corporation, or shares in a mutual fund.

Stock: A unit of ownership in a public corporation. There are many different kinds of stock including preferred and common. Preferred stock has certain privileges over common stock including a prior claim over dividends and over assets in the event of liquidation. Stocks trade either on an exchange or over-the-counter. The price of stocks varies and fluctuates. Stocks are offered mainly through brokerage firms. Commission charges vary depending on price of stock, number of shares purchased, etc. Also referred to as *Equity* or *Securities*.

Total Return: Dividend or interest income plus any capital gain. Total return is generally considered a better measure of an investment's return than dividends or interest alone.

12(b)1 Fee: A type of mutual fund fee that may be included in the annual fund operating expenses of a fund to cover marketing expenses.

U.S. Government Securities: Direct obligations of the U.S. Government. They include treasury bills, notes and bonds. These investments feature a fixed rate of return and mature on a specific date. Also known as *Treasuries*.

Will: A legal declaration of what a person wants done with their estate upon death.

Yield: The expected or actual profit received over a period of time from an investment, usually expressed as a percentage of the purchase price. Also known as *Return*.

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