

MAKING YOUR MONEY LAST

The point of all the calculations you have done in this booklet is to make sure your income will last a lifetime. If doing the worksheets has uncovered a gap between your retirement income and expenses, you probably will be changing some financial habits over the next 10 years. The only part of your retirement mystery that remains is deciding how you are going to make your retirement income last as long as you do. You will need a strategy.

Solving your retirement mystery has revealed that more saving (especially for medical costs), more



investing, and less spending will boost your confidence and your financial bottom line as you near the end of your working life.

For now, you will probably need to focus on adding to your nest egg and on investing it wisely.

Take into account you will also have income taxes to pay. Take the short tax quiz in this chapter to find out about minimizing your taxes in retirement.

You may also want to take a look at financial products and services that could help build some financial security into your retirement. But first, a word of caution. Because you're growing a nest egg, you may start hearing from people offering their own strategies for managing your retirement money. These people may be relatives and friends. You will also hear from strangers in phone calls, letters, and emails. Some may offer to double your money at no risk. Think long and hard about involving them in your financial affairs, unless they're qualified financial professionals and can be objective. Retirees are frequently targets for scams. Don't give out any personal information to strangers. Don't be a courtesy victim. Con artists will not hesitate to exploit your good manners. Save courtesy for friends and family members, not potential swindlers!

It's A Big Deal

"Having a strategy" may sound like retirement is a battle or a complicated business opportunity. You may be thinking, "What's the big deal? I'll just withdraw money when I need to pay bills." Your parents may have done fine by simply cashing their monthly Social Security and pension checks to

live on. Their taxes on this income most likely were a lot simpler and a lot easier to do.

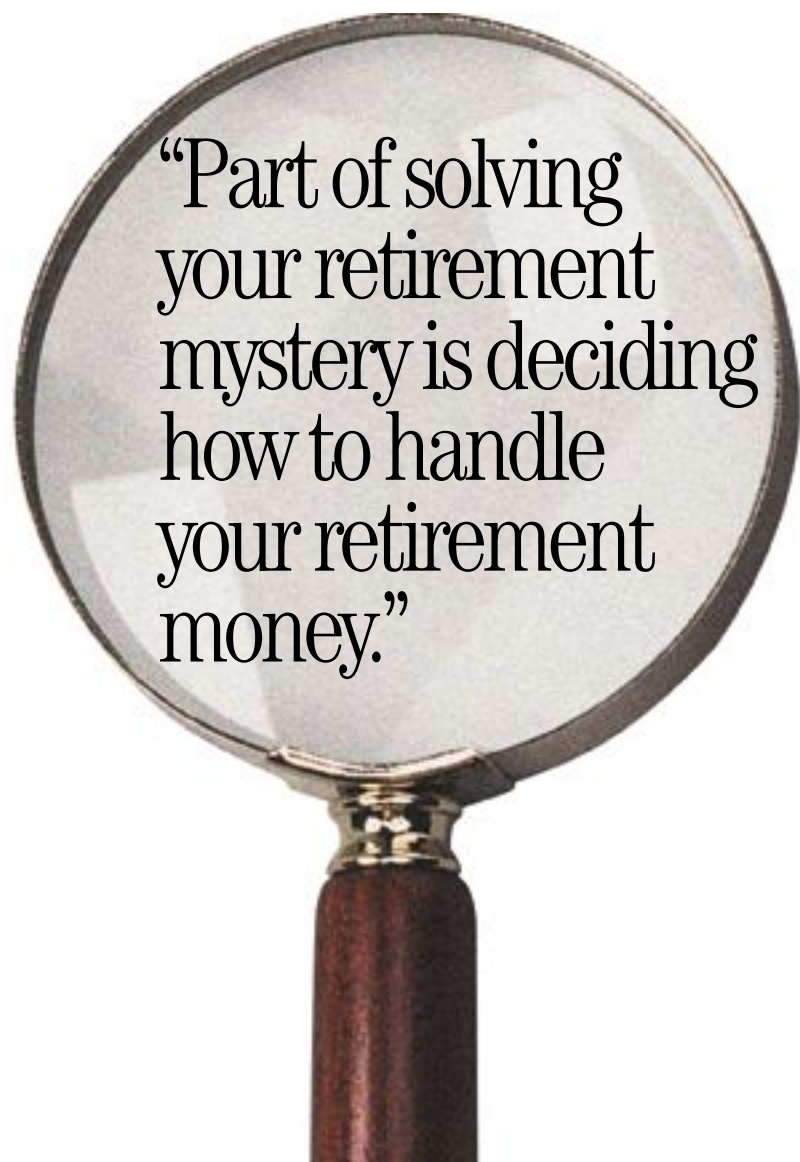
In today's world, keep in mind that the money you have saved and invested will be earning income until you withdraw it. Part of solving your retirement mystery will be deciding how to handle your retirement money, including continual investing, throughout your lifetime. Your tax situation, both federal and state, may not be so clear. You need to plan a

withdrawal strategy so you pay less tax on money you take out of your retirement account and continue to grow the money you leave in. A qualified tax advisor can help here.

Getting Your Retirement Benefits

You may need to decide whether to take your pension or your retirement plan benefit in a lump sum or in an annuity. You can find out about your retirement plan payout options by reading your plan documents. Or you can contact the plan administrator directly for information about what your plan offers.

If you are in a traditional pension plan, your benefit is paid in the form of an annuity – that is, through periodic payments, typically monthly, for an extended period, usually your lifetime. If you select an option that provides for a survivor benefit for your spouse, note that your monthly benefit will be reduced. The survivor benefit is typically 50 percent of the retiree's benefit, but some plans provide for other options, such as 75 percent.



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If you are in a defined contribution plan, such as a 401(k) plan, you do not automatically get your benefit as an annuity. Your retirement benefit can be taken as a lump sum – paid either entirely at the time of your retirement, or, as in some plans, through periodic payments over a short period of time, such as 3 or 5 years. Your plan may provide an annuity option or you may choose to buy an annuity with all or part of your lump sum benefit. If you choose to take your benefit in a lump sum, be sure to put it in a tax-deferred account, such as an IRA, within 60 days to avoid paying high income taxes (the highest tax being 35 percent as of 2004) on the amount. You will then have to decide how to invest what could be the most money you've ever accumulated and make sure it lasts for the 30 years of your retirement.

If you choose an annuity, make sure you realize the risks and rewards. An annuity provides a steady stream of income that lasts throughout your lifetime and can provide adjustments for inflation. This is helpful especially in the early years of retirement when there may be the temptation to spend the excess income instead of saving it to make sure it is there in 20 to 30 years. Keep in mind that if you die



sooner than expected, however, the insurance company may keep the remaining balance unless you have opted for a survivor benefit. That is why annuities are usually

not recommended for those with a shortened life span. Annuities come in many varieties. If you are purchasing one, choose an insurance company with a good credit rating and track record. Be sure you know what you're buying – there are costs involved in ending the contract. The more you learn upfront, the better.

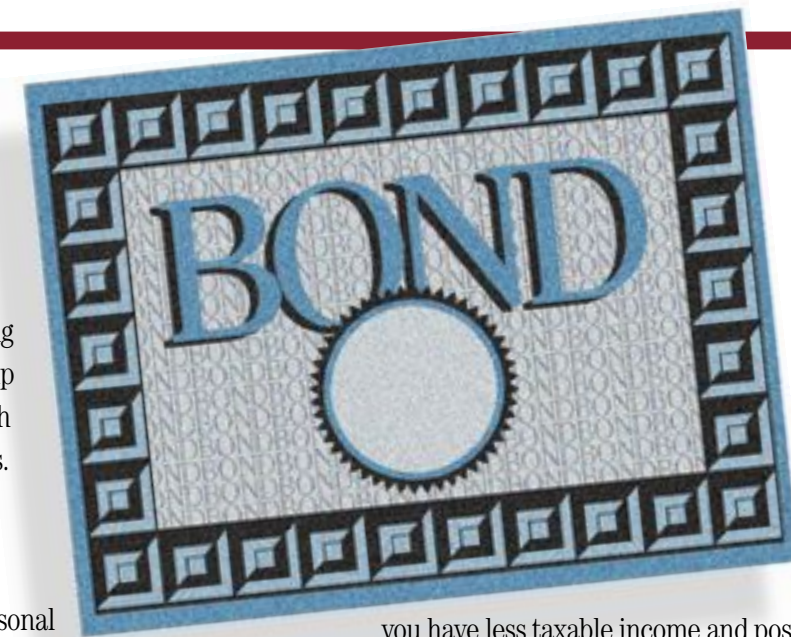
You can also buy an annuity with money from other assets such as an inheritance or the sale of your house. Like other annuities, you will receive a monthly check for a defined period or for life. The tax treatment of these payouts will be different, however. Like any investment, review the terms of the annuity before you purchase it. For example, will the amount paid vary based on investment returns or is it fixed, what will you pay in related fees, etc.

Another way to make your money last is to obtain a reverse mortgage – essentially a bank loan based on the amount of the equity in your home. It can provide you with a monthly check, but at a cost. You are spending down the value of your home. If you can keep your house in good repair so the bank sees value in the loan, this is a way to supplement your income and not have to leave your home. When you or your heirs sell the house, however, the loan has to be repaid. Talk with the bank about any taxes due on these payments, and make your family aware of your reverse mortgage.

Also, remember long term care insurance can help you plan for increased health care costs in your later years.

Withdrawals: Which Pot?

You probably have some personal savings included in your retirement nest egg that you've already paid taxes on. A Roth IRA, for example, is a good place to leave money you've invested for growth because the withdrawals are not taxed. Retirement experts say you usually should withdraw from this pot of money earlier in retirement when you may be in a higher income tax

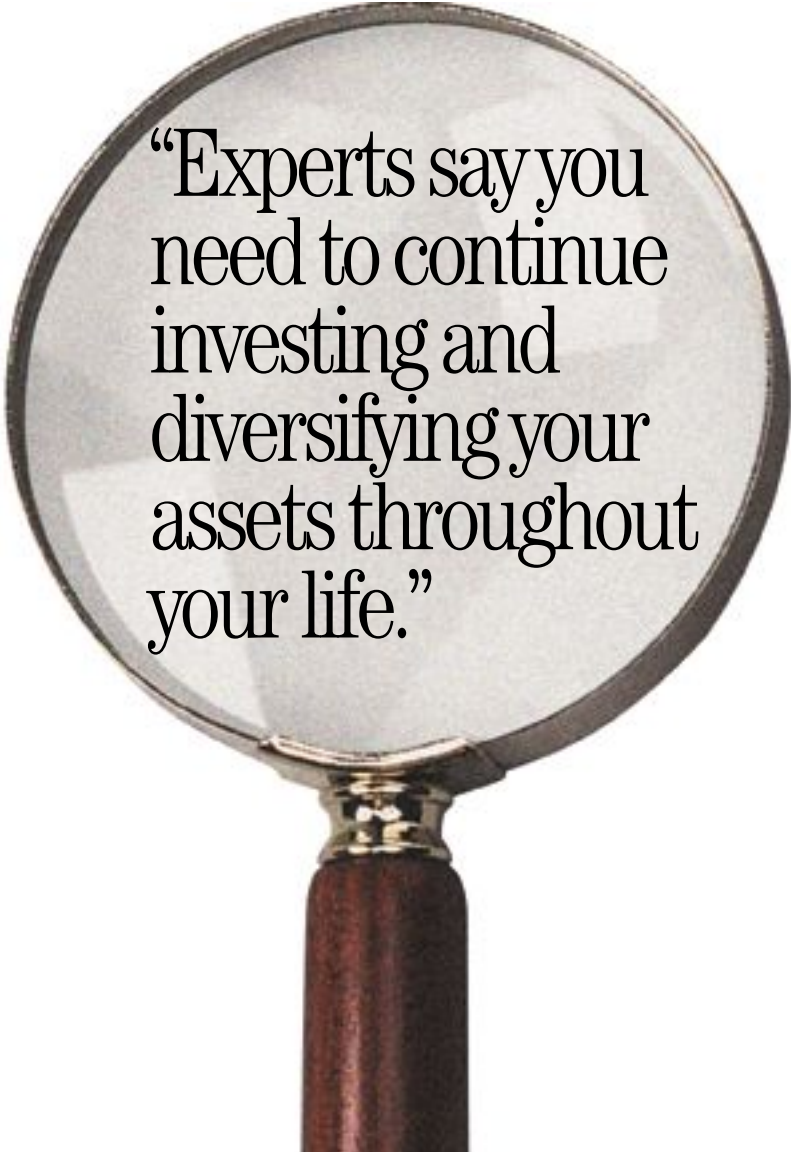


you have less taxable income and possibly higher deductions due to medical expenses.

Be aware, however, that the IRS requires you to start withdrawing tax-deferred money from retirement accounts when you turn 70 1/2 years of age. (This is a milestone on the *Retirement Timeline* at the beginning of this booklet.) By doing so, you will avoid tax penalties. These withdrawals are called "minimum required distributions," and the formula for determining the amount can be complicated. You may want to consult a tax expert for help.

Can You Beat It?

As you're withdrawing money to pay your bills in retirement, you should be trying to grow your remaining money to at least keep up with inflation. Of course, it's better to beat inflation. Experts say you need to continue investing and diversifying your assets throughout your life. Keeping your money in accounts paying guaranteed interest rates will keep it safe, but not from inflation. Inflation is a major threat to your financial future so make it a consideration in your investment decisions.



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Going It Alone Vs. Getting Help

With a lot of study and regular attention to changes in tax laws, the economy, the stock market, and your money, you may be able to come up with a strategy to minimize taxes and maximize income. There's even software to help.

There's another road too. You can hire someone to develop your strategy and manage your money for you. Especially during the later years of your retirement, you may want to seek the help of a professional, when you may have less interest, energy, and ability to keep your strategy on target.

Good money managers, and the companies they work for and with, are required by law to be clear and open about their fees and charges and whether they are paid by commissions or for the sales of financial products, such as annuities and mutual funds. Be sure to ask questions, get references, and avoid anyone who guarantees performance on returns. This way you can make an informed decision. After all, it is your money you are putting in their hands.



Taxes & Retirement— True or False?

Income taxes go away
when you're retired.
True or False?

False. Remember all that pretax money

**you contributed to your retirement plan? When you
withdraw it at retirement, you pay income taxes.**

Social Security benefits are not sheltered from taxes.
True or False?

**True. A portion of your Social Security benefits are
included in your taxable income if, for example, in 2004
you have taxable income and Social Security benefits of
more than \$25,000 for a single person and \$32,000
for a couple.**

There are no tax consequences if you don't start to withdraw
your pretax savings at age 70 1/2? True or False?

**False. There is a 50 percent tax penalty on amounts that
the IRS requires to be taken out after age 70 1/2 and that
are not withdrawn when required. In tax terms these are
called "minimum required distributions."**

A Few Words About Scams

As you plan your retirement, don't let fear, desperation, or the need to catch up financially push you into any hasty investment decisions. In all legitimate investments, higher returns are accompanied by higher risks – risks you may well not want to take as you near retirement. Be wary of anyone who claims they can sell you a product that offers great reward without great risk – a sure sign of a scam. Here are a few points to keep in mind when you make any financial decision:

Recognize that anyone can claim to be a "financial consultant" or "investment counselor." That person may not have the special training, expertise, or credentials necessary to back up the claim, however. Ask about licensing and professional designations and check them out with securities regulators and any trade groups in which they claim membership.

Understand your investments and never be afraid to ask questions. Good financial professionals are never pushy, and they never dismiss your concerns.

Don't let embarrassment or fear keep you from reporting suspected investment fraud or abuse. Contact the securities agency in your state as soon as you suspect a problem or believe you have been dealt with unfairly.

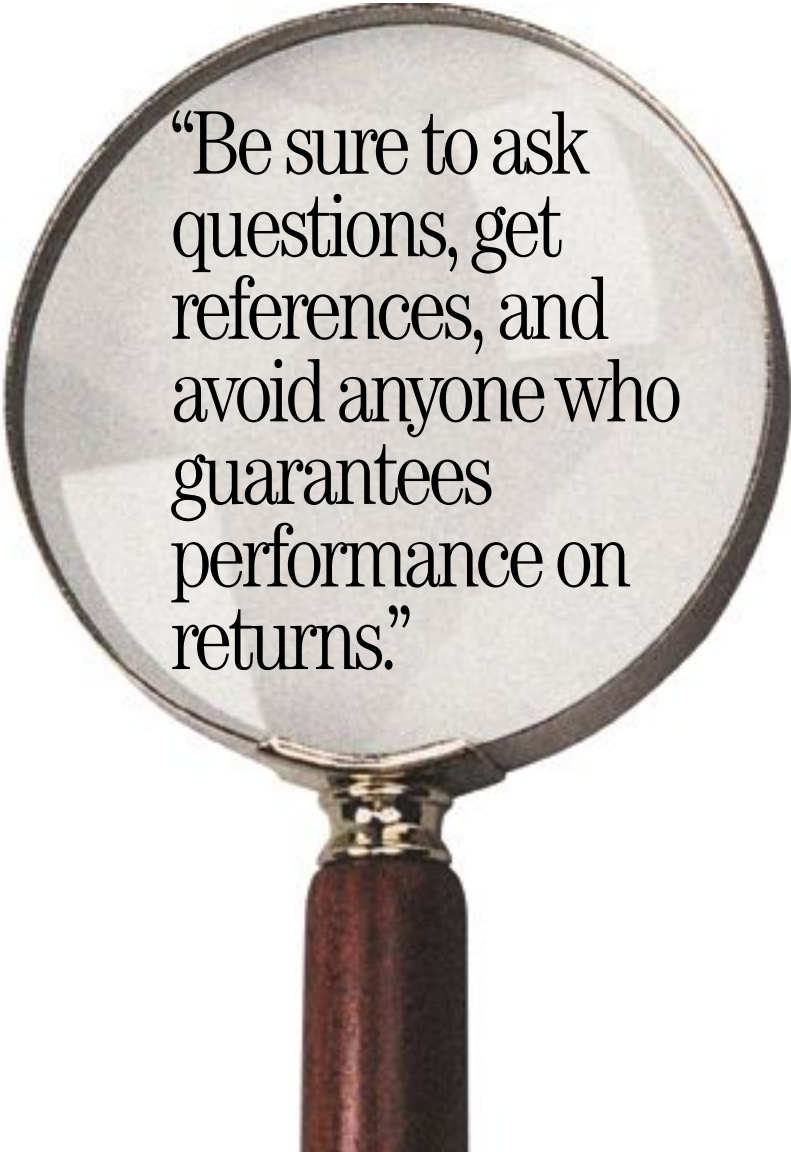
Never judge a person's integrity by how they sound or how they appear. The most successful con artists sound extremely professional and have the ability to make even the flimsiest investment seem as safe as putting money in the bank.

Monitor your investments. Ask tough questions and insist on speedy and satisfactory answers. Make sure you get regular written and oral reports. Look for signs of excessive or unauthorized trading of your funds when you receive statements, and do not be swayed by assurances that this kind of practice is routine.

Above all, become an informed investor.

In investing, as in life, if it sounds too good to be true, it probably is.

Now that you have tracked down all the clues pertinent to your retirement mystery, you've almost solved the case. In the next chapter, you will find several resources to turn to for more information. Take advantage of them.



“Be sure to ask
questions, get
references, and
avoid anyone who
guarantees
performance on
returns.”