

Areas of Financial Planning

- Budgeting
- Investing
- Income in retirement
- Insurance needs
- Estate planning
- Miscellaneous topics
 - Tax issues
 - Scams

Budgeting Issues

- Have more time for personal finance issues
- If possible, focus on spending before you are retired
- Increased expenses on:
 - Health/medical
 - Hobbies and entertainment
 - Travel
 - Phone and utilities
- Decreased expenses:
 - Clothing and dry cleaning
 - Income taxes
 - Commuting costs

Funding Sources

- Income
 - Pensions
 - Annuities
 - Income from invested assets
 - Coupon and dividend income
 - Social Security
 - Part time employment
- Spending down principal in assets (selling)
 - IRA / 401k
 - Home
 - Other assets

Spending vs. Funding

- Excess spending
 - Reduce spending now!
 - Change living arrangements
 - Part-time employment
 - Delay retirement
- Equal – Fine tune and monitor progress
- Excess funding – focus on estate planning to preserve estate for your heirs

Credit Cards

- Switch to a fixed income can be difficult for retirees
- Avoid temptation to use credit cards as a temporary bridge
- Use of credit cards should be limited in retirement
 - Emergencies

Investment Basics

- Risk averse investors lead to risk/return tradeoff in finance
- Age of investor determines level of risk aversion
- Nearing retirement
 - Gradual shift to more stable investments
 - Focus on income and capital preservation
- Stocks provide a hedge against inflation

Asset Classes

Asset	Pros	Cons
Checking/Money Market	<ul style="list-style-type: none"> • Liquidity (fast cash) • FDIC insured (if a bank) 	<ul style="list-style-type: none"> • Low interest < inflation
CDs	<ul style="list-style-type: none"> • FDIC 	<ul style="list-style-type: none"> • Low interest
Bonds	<ul style="list-style-type: none"> • Higher income • Can be safer (credit risk) • Munis are tax-free 	<ul style="list-style-type: none"> • Not guaranteed • If sold, price risk
Stocks	<ul style="list-style-type: none"> • Dividend income • Inflation hedge 	<ul style="list-style-type: none"> • Higher risk • No guarantee of dividend

Mutual Fund Basics

- Small investor pool funds and the investment manager buys assets
- Wide variety of different strategies
- Mutual fund benefits
 - Diversification
 - Professional management
 - Recordkeeping and administration
 - Convenience

What to Look For...

- Read the prospectus
- Loads are sales charges
 - Front-end vs. back-end vs. 12b-1 fees
 - “No load” funds are now widely available
- Management expenses reduce returns
 - Tremendous variety of strategies
 - More trading means more expenses
- Efficient markets suggest using “index funds”

Savings and Retirement: Sources of Income

- Social security
- Pensions
- 401(k)/403(b)/Keogh
- Individual retirement accounts (IRAs)
- Annuities
- Roth IRA
- Reverse mortgages
- Senior scams?

Social Security Benefits

- Pay-as-you-go system
- 40 quarters of employment
- Related to average salary over highest 35 years
- Personal benefit statement projections
- Start as early as age 62
 - About 7% benefit reduction for EACH YEAR you retire prior to “Full Retirement Age”

When to Start Collecting SS?

- Health and life expectancy
 - Longevity favors waiting
- Employment
 - Earnings over \$12,000 reduce benefits
- Marital status
- Personal feelings
 - “Bird in the hand”

Pensions

- Benefits are based on an explicit formula
 - Flat dollar amount per year
 - Average salary
- Vesting is when you earn pension benefit
- Normal retirement age gets full benefits
 - Early/late retirement age benefits?
- Lump sum or annuity?
- Indexed for inflation?
- Single life or joint and survivor
- SS integration?

401(k)

- Pensions are defined benefit retirement plans, 401(k) are defined contribution
- Employee can defer income (employer matching?)
- Tax-free income earns tax-free return
 - Employee usually has investment choices
- At retirement, when proceeds are distributed the income is taxed
 - Lower tax bracket

IRA

- Looks like 401(k), but with no employer
- Fully deductible contributions up to \$2,000 (\$3,000 if married)
 - Income <\$42,000 or \$62,000 if married
- May be partially deductible if higher income
- Catch-up contributions if near retirement
- Depositor can choose from many investments
- Earnings grow tax free until distributed

IRA Rules

- Income is taxed when money is withdrawn
- Early withdrawal gets 10% penalty
 - Can borrow from account: loans due at retirement
 - Hardship withdrawals: medical and education
- 59½ can start withdrawing without penalty
- After 70½ you MUST start withdrawing a minimum (unless still working)

Annuities

- Protect against “living too long”
- Immediate annuities transform lump sum into lifetime income stream during retirement
- Deferred annuities are savings vehicles that look like IRAs
 - Investment options: fixed rate or variable products
 - Often high fees

Roth IRA

- Higher income limits
 - \$110,000, \$160,000 if married
- Deposits up to \$3,000 are after-tax
- Withdrawals are tax-free
- Benefits compared to IRA
 - No required minimum distribution
 - More lenient early withdrawal (>5 years)
 - If working past 70½, you can still contribute
- Save Roth IRA for last

Lump sum or Annuity?

- Lump sum requires careful investment strategy
- Annuities may reduce uncertainty for a fee
- Web/software tools are helpful
- Potential solution: partial annuitization

Reverse Mortgages

- Suppose you want to stay in the same location, but have shortage of income
- Reverse mortgages generate income from the equity in your home
- Gradually sell a portion of your house to a bank
- Three types: Tenure, term, line of credit
- Proceeds from sale of house repay loan
- Interest rate may be higher than regular mortgages

Senior Scams

- Avoid emotional now or never decisions
- Take the time to understand the investment
- Now is not the time for get rich quick plans
– TANSTAAFL
- If it seems too good to be true, it is

Life Insurance

- Life insurance is for dependents
 - Needs have diminished
 - Fewer expenses and fewer dependents
 - More resources
- Whole life policies have cash value
 - Cash out and invest?
 - Stop premium and convert to term
- Group insurance through employer(?)

Health Insurance

- Disability insurance protects income only
- Medicare Part A – Hospital Insurance
 - No premium
 - Deductibles in 2005:
 - \$912 first 60 hospital days
 - \$228/day, 61-90 days
 - \$456/day, 60 lifetime reserve days
- Optional Part B – Medical Insurance
 - Premium \$78.20/mo (2005)
 - \$110 deductible, 20% coinsurance
- New optional Part “D” – Prescription drugs (2006)
 - Area specific plans
- Medicare supplement plans (Medigap)
 - 10 standard policies (Plans A through J)

Early Retirement Health Options

- Extension of group coverage(?)
- COBRA
 - Guaranteed full coverage for at least 10 months
 - Pay full amount of premium
 - Small employers may not be included
- Individual policy
 - HIPAA guarantees coverage after COBRA
 - \$\$\$

Indemnity vs. Managed Care

	Traditional Indemnity	Point of Service/ Preferred Providers	HMO
Doctor choice	• You choose any doctor	• In-network doctor or out-of-network	• Limited doctor choice • Need referral
Benefits	• Annual deductible, then cost sharing	• Higher in-network benefits (lower ded., less cost sharing)	• Smaller copay per doctor visit
Administration	• You may have paperwork to get reimbursed	• Varies	• Little or no paperwork (member card)
Premium	• Usually higher	• Depends on size of network	• Usually lower
Advantages	• Usually desired by those who have doctors	• Mix of good and bad of HMO vs. Traditional	• Lower cost, usually good for healthier individuals

Long-Term Care Insurance

- Almost half of Americans will need non-acute care for assisted living
- Annual cost for long-term care facility near \$50,000
- Medicare coverage usually limited to 100 days
- Medicaid has strict wealth/income limits
- Long-term care policies are fairly new
 - Premiums are lower if start the policy early
 - May separately save money instead of LTC policy

Estate Planning

- Distribution of assets upon death
 - Consistent with your wishes/needs
 - Minimize taxes
- Manage medical and financial affairs upon disability

Estate Planning Approaches

- Simple identification of assets and liabilities
- Wills (some assets override wills)
 - Choose executor
- Living will
- Powers of attorney (Property and medical)
- Trusts
 - Property transfer to beneficiary
 - Trustee manages trust property for the benefit of beneficiary
 - Avoid probate

Summary

- Start budgeting now – estimate expenses
- Begin to gather information to estimate income
 - Review retirement plans (if still working) and personal investment accounts
 - Read your SS benefit statement
- Review portfolio allocations
- Identify health and life insurance needs
- Plan for estate distribution
- Relax!
