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financial $UCCESS
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Easing into Retirement

For most of your working life, you've looked forward to the day when you can quit your job and start enjoying retirement. But in recent years, talk of longer life expectancies, uncertain Social Security benefits, declining pension benefits, unknown inflation rates, and low retirement savings made retiring at a relatively young age seem difficult. Then, in the past couple of years, declining investment and home values made it seem even more difficult to retire at any age. More and more people are coming to the conclusion that either retiring later or continuing to work during retirement is necessary.

Working doesn't necessarily mean that you have to stay with your current employer. Rather, many individuals are taking on totally different jobs, which can allow them to try something new, provide more free time by working less, or ensure less stress. Besides the nonfinancial reasons for working, there are several financial reasons:

✔ **You have more time to save.** Each additional year you work is an additional year you can continue to save for retirement. Those age 50 and over have additional means for saving, with annual catch-up contributions of $1,000 for individual retirement accounts and $5,500 for 401(k) plans in 2010.

✔ **You shorten your retirement period.** The longer you work, the less time you'll spend in retirement, which means you need less money to fund that retirement.

✔ **You can delay Social Security benefits.** Each additional year you wait to take Social Security benefits, up to age 70, will permanently increase your monthly benefit.

✔ **You keep health insurance benefits.** One of the most significant costs in retirement is health care, and you can delay that cost by working at a job that provides this benefit.

Some companies are helping employees with retirement issues by

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Do You Need a Prenuptial Agreement?

In the past, prenuptial agreements were common only with very wealthy individuals. Most couples married at a young age, with little in the way of assets, and worked together to build their finances. But times have changed. People get married later in life, after accumulating substantial assets or obtaining postgraduate degrees that will help them earn more in their careers. Second marriages are also more common, so there is more concern about protecting children from previous marriages. Thus, it is now more common for couples to sign prenuptial agreements.

A prenuptial agreement details what will happen in the event of divorce or the death of either party. It spells out how assets currently owned and acquired in the future will be distributed. While you may think this will be handled in your will, a will doesn't apply when you divorce, and most states allow a spouse to override the terms of a will and inherit a statutory percentage of the estate. Typically, a spouse cannot override the terms of a prenuptial agreement.

If you married without a prenuptial agreement, you can always use a postnuptial agreement. It is basically the same thing as a prenuptial agreement, but is signed after marriage. ❍❍❍

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Is 10% Enough?

A common rule of thumb when planning for retirement is to save 10% of your gross income during your working years. Since this rule of thumb has been around for a long time, it's logical to question whether it's still an appropriate guideline. Several trends suggest that it is probably on the low side:

✔ **Fewer individuals are covered by defined-benefit plans.** The 10% guideline anticipated that a retiree would receive a defined-benefit pension as well as Social Security benefits. But a substantial portion of the work force is no longer covered by a defined-benefit pension.

✔ **The Social Security system will face increasing pressure in the future.** Due to the unprecedented number of baby boomers that will be retiring in the near future, there will be fewer workers to pay the benefits for each retiree. By 2037, unless changes are made to the system, benefits will need to be reduced by approximately 25% to equal revenues collected (Source: Social Security Administration, 2009).

✔ **Life expectancies are continuing to increase.** Average retirement ages have been decreasing while life expectancies have been increasing. Currently, at age 65, the average life expectancy is 82 years for a man and 85 years for a woman, compared to 78 years for a man and 81 years for a woman in 1950 (Source: *Journal of Financial Planning*, August 2008). Thus, the average retiree has fewer years to accumulate savings, but those savings must last for a longer period of time.

✔ **Plans for retirement have changed.** Another common retirement planning rule of thumb is that you'll need 70% of preretirement income during retirement (Source: *Money*, January 2009). However, that guideline assumed a relatively inactive retirement lifestyle. Increasingly, retirees view retirement as a time to travel extensively or engage in expensive new hobbies. Thus, more and more retirees are finding little change in their income needs after retirement.

All these trends point to the fact that future retirees will be responsible for providing more of their income for a longer period of time. Thus, you should consider higher, not lower, savings rates. While 10% of income may sound like a lot of money, consider how many years you expect to work compared to how many years will be spent in retirement. Assume you start working at age 22, work until age 62, and then die at age 82. Thus, you work 40 years and are retired for 20 years — for every two years you work, you need to support yourself for one year in retirement. If your retirement expenses don't go down and you don't have a defined-benefit pension, you'll most likely need to save significant sums to support yourself for that length of time.

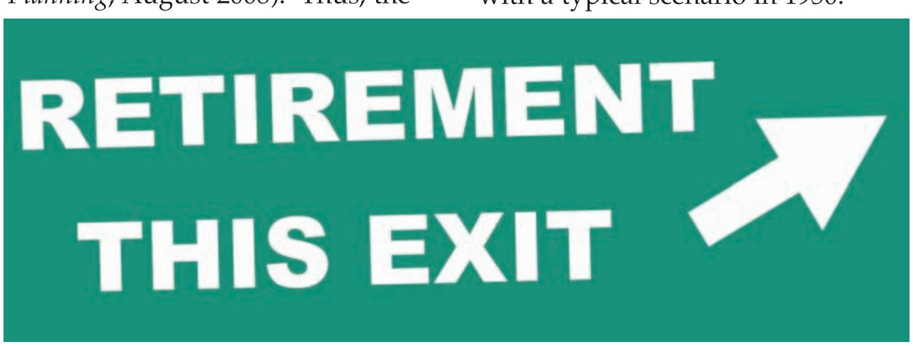
Contrast the current situation with a typical scenario in 1950.

At that time, the average retiree worked 47 years before retiring for nine years. Thus, that person worked over five years to support one year of retirement.

For many people, then, the answer may be to extend their working years. In the above example, if you wait until age 70 instead of age 62 to retire, you will work for 48 years and be retired for 12 years. Thus, you will work four years for every year of retirement. While preretirees may not have the mathematics down, many realize that working longer, rather than retiring earlier, may be the only way to ensure that they don't run out of retirement funds. Almost all recent surveys of baby boomers indicate that the majority expect to work at least part-time during retirement.

These stark realities don't mean that you can't retire, just that you need to plan carefully. Thus, you should start saving as much as possible, as soon as possible, for your retirement. Waiting even a few years to start saving can substantially increase the annual amount you need to save.

Trying to gauge whether your retirement savings are on track? While there's nothing like going through a thorough analysis, you can take a quick look by adding up all your retirement assets and multiplying that balance by 3% or 4%. This withdrawal percentage should ensure that your retirement assets last for several decades. If you'd like to discuss retirement planning, please call. ❍❍❍



Easing into Retirement

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allowing phased retirement, where hours are gradually reduced until full retirement. One possible advantage of staying with your current employer is that the pay may be higher than if you started over in another profession. If your employer offers a phased retirement program, find out these details before signing up:

✔ **How will phased retirement affect your benefits?** Many pension benefits are calculated based on your earnings in the last few years of your working career. If you don't want to take pension benefits yet, make sure your pension will be calculated using earnings while you worked full-time.

✔ **What will happen to your salary with reduced hours?** Will you receive a pro-rata share of your pay, or will a different pay scale be used? Will you be entitled to pay increases in the future?

✔ **Will you be eligible for health insurance benefits?** Find out the company's policy regarding health insurance benefits for part-time workers. This will be especially important if you move to part-time status before age 65, since you won't be eligible for Medicare.

✔ **What other details should you investigate?** Make sure there is a mutual understanding about your hours. Can you take time off to travel? If you don't like part-time work, can you go back to your full-time job?

If your employer doesn't offer a phased retirement program or you want to try something new, investigate your options before quitting your job. Some factors to consider include:

✔ How do you plan to spend your retirement? If you plan to travel a lot, how will work fit into that schedule? If you plan to split your time between two homes in two locations, how will you be able to work?

✔ What interests you? Would you be happier pursuing a job that takes advantage of skills from your current job, or would you like to try something totally different? Do you need to obtain additional skills or go back to school?

✔ Do you want a job with significant responsibility, or are you trying to reduce the stress in your life?

✔ Are you passionate about an interest or hobby that you may be able to turn into a business? Do you want to start your own business? If so, do you have the financial resources, without risking funds for your retirement?

✔ Is there a cause that is important to you? Is it time to move to the nonprofit sector, finding an opportunity that matters to you on a personal level?

Retirement is in the midst of being redefined once again. The last generation was able to retire to a life of total leisure due to the generosity of company pension benefits and Social Security. But longer life expectancies, less generous benefits, and declining asset values mean that it is time to redefine retirement. What many are seeking is not so much total leisure as more leisure or a more meaningful lifestyle. Many are finding that those goals can be accomplished while still working, with those additional working years providing more financial security. If you'd like to discuss work and its role in your retirement, please call. ❍❍❍

Avoid These Life Insurance Mistakes

✔ **Not considering life insurance at all.** Life insurance forces us to take a look at our own mortality, a subject most people would prefer to ignore. In fact, one third of all adults have no life insurance at all (Source: *U.S. News & World Report*, April 6, 2009). But without life insurance, you could be leaving your family in dire financial circumstances if you die.

✔ **Relying on rules of thumb.** When deciding how much life insurance you need, avoid common rules of thumb, such as five to 10 times your annual salary. These are general guidelines and are not meant to be a definitive guide to the amount of coverage you need. You need to determine how much money your family requires annually to maintain their standard of living and how long they will need that money. Once you have these estimates, you can more accurately calculate the amount of life insurance coverage that is appropriate for your family's situation.

✔ **Not selecting appropriate beneficiaries.** Estate and tax ramifications should be considered before selecting beneficiaries. Be sure to name contingent beneficiaries in case your primary beneficiary dies before you do.

✔ **Replacing an existing policy without first evaluating it.** Look at an in-force ledger statement to determine the policy's current status and growth projections. If you need more insurance, you can always apply for another policy for the additional amount needed. A policy change may require a medical examination and may incur fees and costs.

✔ **Not evaluating your situation periodically.** Your life insurance needs are likely to change over time. Thus, you should periodically review your needs to see if changes are warranted. ❍❍❍

Finding Money to Save

Everyone knows that they should be saving at least 10% of their gross income for retirement, but that can seem like an impossible goal after paying all your bills. However, don't just figure that goal is unachievable without first looking at the after-tax cost.

For instance, assume you earn $50,000 annually and your employer matches 50 cents for every dollar you contribute to your 401(k) plan, up to 6% of your pay. If you put 6% of your pay, or $3,000, in the plan, your employer will match 3%, or $1,500. Your contribution really costs less than 6%, because the money is taken out before income taxes. If you are in the 25% tax bracket, your $3,000 contribution will save $750 in taxes, or 1.5% of your pay. So, between your contributions and your employer's match, you will contribute 9% of your pay toward retirement, but it will only cost you 4.5% of your pay.

Made over long periods of time, those levels of contributions can help significantly in funding your retirement. If you contribute $4,500 annually starting at age 30, you could potentially accumulate $837,460 by age 65 with an investment return of 8% annually. *(This example is provided for illustrative purposes only and is not indicative of the return of a specific investment.)* If possible, you should strive to contribute even larger sums of money. In 2010, the maximum 401(k) contribution is $16,500, plus individuals over age 50 can make an additional $5,500 catch-up contribution.

What if you don't have a 401(k) plan at work? Take a look at individual retirement accounts (IRAs). While you won't get an employer match, you can contribute to a deductible IRA, if eligible, with pretax dollars, which reduces your contribution's cost by your marginal income tax rate. In 2010, you can contribute a maximum of $5,000 to an IRA, and individuals over age 50 can make an additional $1,000 catch-up contribution. So, if you are in the 25% tax bracket and make a $5,000 contribution, you'll save $1,250 in income taxes. Or, you may prefer to contribute to a Roth IRA. While you won't get a current income tax deduction for your contribution, you can make qualified distributions free from federal income taxes. OOO

Debit or Credit Cards?

With a debit card, funds are automatically deducted from your checking account when you make a purchase. With a credit card, you receive a monthly bill, which you can pay in its entirety or over time.

If your credit card is stolen, you will be responsible for no more than $50 of unauthorized charges. You will owe nothing if you notify the card issuer before the card is fraudulently used. While the rules are similar for a debit card, the maximum $50 charge only applies if you notify the issuer within two days of losing your card. If you wait, you could be liable for up to $500 of charges.

If you make a purchase on a credit card and the merchandise is faulty or you have other problems, you can contact the credit card company, who will take the charge off your account and contact the vendor for resolution. A debit card purchase, however, is just like a purchase with cash or a check. Typically, you will have to deal with the vendor yourself; and until the matter is resolved, the funds remain out of your account. Due to this difference, you might want to use a debit card for routine purchases and credit cards can be used for larger purchases or for Internet or phone purchases. OOO

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