

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

---

---

---

---

---

---

---

---

---

---

### 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!

---

---

---

---

---

---

---

---