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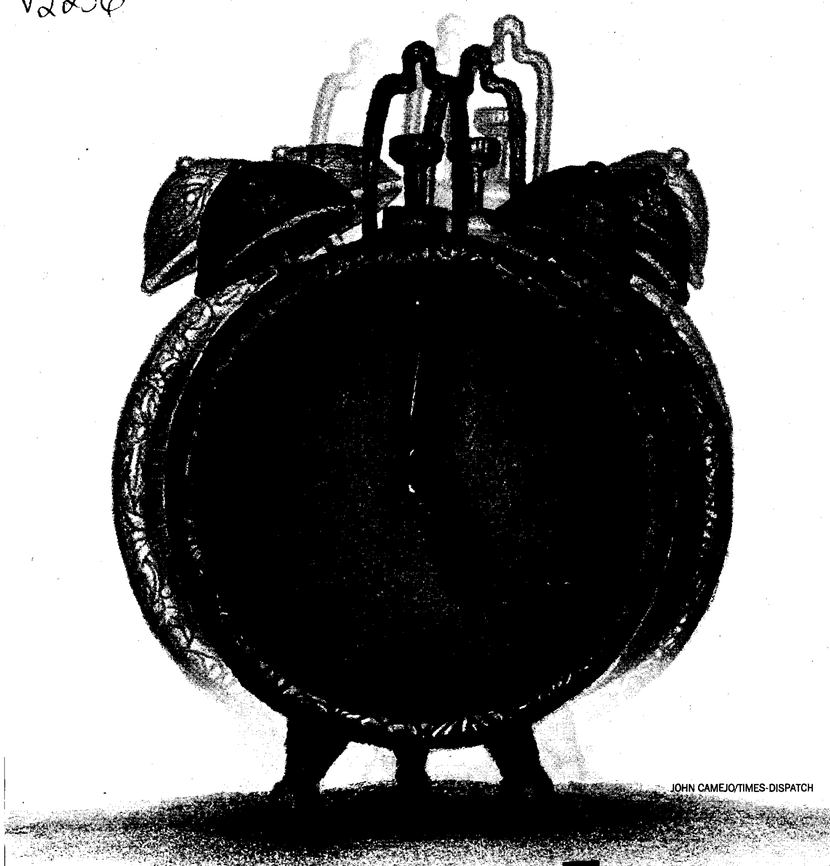

JOHN CAMEJO/TIMES-DISPATCH

Good timing

What to do for retirement countdown

BY BETTY BOOKER
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The ticking clock of approaching retirement rings alarms in most middle-aged American workers. And for good reason.

Many are dependent on a paycheck. They have insufficient retirement savings and don't know if they have enough money to last a lifetime.

Many live beyond their means, are in debt and worry if Social Security and company pensions will disappear.

They're concerned about rising health costs. Some are still bailing out junior when he can't pay rent or auto repairs.

Still, national surveys show that despite a lack of realistic savings or sufficient planning for retirement, half of Americans expect to roll into old age living as they always have. And nearly half of workers aren't saving for retirement at all.

This disconnect between reality and irrationality clangs loudly if midlife workers actually plan their countdown to retirement.

Calculating retirement needs and pitfalls before the day you retire can yank you back from an ill-considered departure from work — or confirm that you indeed have enough.

Be forewarned, however. The nature of retirement is changing, says the annual Retirement Confidence Survey by the nonpartisan Employee Benefit Research Institute and the American Savings Education Council. (Look at www.ebri.org for details.)

"Some workers may have expectations about their retirement that cannot be achieved," the report says.

They think they'll work until the age they want to retire, work in retirement if they prefer and get full Social Security and employer pensions and health plans, the report says. But they fail to con-

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Countdown

Retirement basics:

- **Game plan:** Calculate retirement income at various ages. Numbers are more accurate closer to retirement. Write a budget and estimated retirement expenses. Factor in inflation, which reduces buying power. Get a reputable retirement planner to check your calculations.
- **Early or later:** The earliest you can get Social Security is age 62, but your check is permanently reduced between 20.83 percent and 30 percent for people born in 1938 and later. The age for full retirement benefits is gradually increasing until it reaches 67 for people born after 1959. Use your company's online pension calculators. If you retire before your full retirement age, you can earn any amount but must forfeit $1 for every $2 earned above $12,000 this year. After your normal retirement age, you can earn any amount without penalty. Individual retirement account use before age 59 1/2 usually involves a penalty.
- **Social Security:** Apply for benefits about three months before you want your retirement checks to start. Full retirement age this year is 65 and six months. Apply online at **www.socialsecurity.gov/applyforbenefits** or by calling (800) 772-1213.
- **Medicare:** If you're getting Social Security, in the first month you turn 65, you'll automatically get Medicare Part A (hospital insurance, which is generally free) and Medicare Part B (physician insurance, which requires a monthly premium — $78.20 in 2005 — that's automatically deducted from your Social Security). If you're not getting Social Security at 65, enroll in Medicare three months before your 65th birthday. You can enroll at any time without a penalty as long as you have company health insurance before retiring or losing company health insurance. Check with your company human resources department for details about health insurance and about traditional pension and 401(k) and similar defined contribution plans. Generally, however, it's best to enroll near age 65 in Part A and Part B at a local Social Security office or by calling (800) 772-1213. For simple Medicare explanations and an analysis of Medicare HMOs, visit **www.medicarerights.org**; for detailed information, visit **www.medicare.gov**.
- **Insurance:** Most retirees underestimate medical expenses. Many employers expect to discontinue retiree drug coverage or increase premiums after the full Medicare drug plan begins in 2006. Consider buying long-term-care insurance to protect assets.
- **Legal:** Prepare a will, a power of attorney and health-care advanced directives that outline what kinds of care you want. Name someone to make medical decisions if you can't yourself.
- **Taxes:** Tax is levied on pensions, investments, work and Social Security retirement benefits. Individuals with combined incomes between $25,000 and $34,000 may pay income tax on 50 percent of Social Security benefits and on 85 percent of the benefit if income is more than $34,000. Couples filing jointly with incomes between $32,000 and $44,000 may pay tax on 50 percent of the benefit and on 85 percent for incomes above that.
- **Work:** Consider full- or part-time work if you don't have enough to retire fully, are bored or want to delay spending savings.
- **Free time:** Develop interests before you retire, if possible; if not, give yourself a little time to rest, regroup and sample activities.

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Retirement

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sider that ill health, corporate retirement benefit changes, job loss, inflation and changes in Social Security and Medicare could undermine it all.

Moreover, "few workers appear to have an idea of how much it takes to live comfortably in retirement," the survey found.

Much retirement planning can be done by people who are willing to learn the complexities.

There are good online calculators, too. One site is the "Ballpark Estimate" at **www.asec.org/ballpark/nonblpk.htm**. Others include **www.kiplinger.com**, **www.morningstar.com**, **www.401k.com**, **www.fool.com**, **www.aarp.org**, **www.smartmoney.com** and **www.socialsecurity.gov**.

But even for those who have figured and invested — and even more so for those who haven't — it's best to pay for an analysis of your plans from a skilled, fee-based certified financial planner; certified public accountant with retirement-planning training; or other reputable financial planner. All should be knowledgeable about retirement transition.

Here are some basics in calculating your move from full-time career to retirement:

■ **Money.** Write a net-worth statement listing the assets and debts of you and your spouse. Write down the income you expect in retirement. It's likely to come from various sources, including Social Security, traditional pension (called a defined benefit plan), 401(k) or other defined contribution plan you've funded while working, investment income, income from rental property, military retirement benefits and income from continuing to work full or part time. Check with former employers; you might qualify for retirement benefits.

The amount of your pension also depends on whether you take single or the joint-and-survivor option, which reduces your pension check for your lifetime but allows your surviving spouse to receive a percentage or all of it when you die. The choice you make is permanent. The law requires spouses to sign an agreement authorizing a single payout.

Divorced spouses who were married at least 10 years and haven't remarried before age 60 also can get Social Security on their ex-spouse's work record. Review your status with a Social Security representative, who will examine all Social Security programs to which you might be entitled in order to maximize your allowed income, says Mary Ellen Cardwell, Social Security spokeswoman.

List your expected expenses. Many planners say you'll need 70 percent to 80 percent of pre-retirement income, but that advice is changing to 100 percent of what your income is now — plus investments to cover inflation and looming loss of traditional corporate and government old-age programs.

Baby boomers must become entrepreneurs and cover more retirement costs themselves longer and out-of-pocket health and insurance costs that are escalating rapidly, says Tama McAleese, an Ohio certified financial planner and author of "Get Rich Slow."

Just to be on the safe side, plan on living until 100, says Roberta K. Welsh, a Richmond certified financial planner.

Gather specific information on your pension and 401(k) plans by talking with your company human resources representative or using online calculators and information. Get (and retain) a printed copy of your company's retirement plan.

Reassess your investment mix, McAleese says.

Major problems — in addition to having under-funded, unrealistic visions of retirement bliss — include having too much company stock, too much in your 401(k) and not enough in independent investments and too little diversification, leaving retirees exposed to risk from inflation, which means your money will buy less in the future, McAleese says.

Avoid "lifestyle creep": Instead of spending extra money on a fancier lifestyle, add it to investments. Get rid of consumer debt. Many want to pay off the mortgage before retiring, but that's a decision that should be figured to get the best tax and other financial returns.

McAleese is particularly concerned about escalating lifestyle expenses fueled by competition with others and cable TV's glorification of "you are entitled" to have mansions.

"I call it SOS — signs of success, signs of status," she says. "And it ends up being signs of stress, suffering, silliness. They become losers if they become big spenders."

"I try to talk the general public out of retirement" if they don't have enough or plan to depend on Social Security, Medicare, traditional pensions or pension bailout by the Pension Guaranty Trust Corp., which is in the hole, she says. "Most of them don't listen. They're too comfortable. And they have no long-term vision."

■ **Budget.** Figure out what your retirement expenses will be. Think long term: Retirement could last 30 or 40 years. Estimate on the high side; most expenses rise. Travel and entertainment costs also typically rise.

Decide which assets to spend first based on retirement-account distribution requirements and tax consequences. Estimate what your income flow is likely to be for your and your spouse's life span.

After you no longer have taxes withheld from your paycheck, you might be required to make quarterly estimated income-tax payments, typically on April 15, June 15, Sept. 15 and Jan. 15, in addition to filing an annual income tax return. Visit **www.irs.gov**.

Single women have lower assets. Only a third of female head of households have 401(k) retirement plans, with a median value of $12,000, and the median net worth is $27,850, according to the Federal Reserve.

Wives who don't get Social Security on their own work record are often shocked to discover that their Social Security benefits drop when their husbands die. Spouses with lower (or no) earnings under Social Security get 50 percent of their mate's retirement checks while he's alive. When he dies, her share stops, leaving her with just the full amount of his check.

Keep contributing the maximum to retirement accounts as long as you have earned income, Welsh says. This year, people 50 and older can contribute as much as $4,500, and $5,000 in 2006.

When you retire, sign up for direct deposit of all income checks to safeguard from theft and to make sure the money is in your account while traveling or indisposed.

■ **Insurance.** Medicare doesn't start until age 65.

Don't retire until you already have Medicare and/or other health insurance, says every retirement planner.

Under the Consolidated Omnibus Budget Reconciliation Act, or COBRA, you're entitled to enroll in your employer's group plan up to 18 months after leaving work, but often you pay the full costs. Or you can buy a major medical policy to tide you over until Medicare. When you sign up for Medicare, planners strongly urge you to consider a supplemental policy to cover deductibles and other expenses. Such "med-sup" plans are standardized; Welsh recommends the "F"-type supplemental insurance. The State Bureau of Insurance at **www.state.va.us/scc/division/boi/** has information on supplemental and other insurance authorized to do business in Virginia.

Don't wait: The six months after enrolling in Medicare is the only time insurers are required to sign you up even if you have pre-existing medical problems.

A Mercer Human Resource Counseling study found that about a fourth of companies are offering health insurance for early retirees, down from nearly half in 1993, a trend that should get top attention in planning.

Long-term-care insurance, however, is not standardized and is a morass of varying options, terms, conditions, payouts and hidden pitfalls. Read Consumer Reports' November 2003 analysis of the industry.

Still, if you have assets you want to protect, and you want your choice of care in nursing homes, assisted-living facilities or home health care, long-term-care insurance is advisable, Welsh says.

The cost of nursing-home care averages about $70,000, according to Metlife's Mature Market Institute.

It is uncertain whether companies will continue offering retiree health coverage, or even prescription drug coverage, after the Medicare prescription drug law kicks in fully next year.

■ **Trial run.** Pretend you're retired, a suggestion made by David K. Henderson, a Richmond and Staunton certified financial planner.

Live on your retirement budget. If you're going to move, live in the new locale in the off-season or move before retirement to see if you like it. If you're just thinking about moving and haven't decided where, consider states with the lowest property, income, sales and inheritance taxes.

More than three-fourths of retirees expect to live at home, AARP's research shows. One option is to replace old appliances, roofs, cars and heating and cooling systems before retirement or to put aside money in inflation-protected investments for future replacements.

Take some time off with nothing scheduled and see what it feels like. Envision what you would do when the novelty of hanging out wears off. Look around for ideas you might be interested in.

Take some time to review the things in your life that you get the most pleasure from. Think about how you can incorporate them into your retirement.

If you can, develop hobbies ahead of time that can be carried into retirement. Explore some options. For example, if you want to start a small business, take a class about doing that and see if it still interests you. But "don't rush into being busy with a million things," says Emily Kimball, president of Make It Happen!, a lifestyle consultant. "Take time to relax and get in touch with the things that really matter in your life, and slowly work out a schedule that includes those important things.

"It is truly a trial-and-error period when you first retire as you slowly make your way into the life you want in retirement. Don't rush it. Try things, put them down; try others, keep them. Go about it slowly and with your gut, and don't panic.

"As Dr. William Thomas says, elderhood is a magnificent stage of life," Kimball says. "Dismiss our culture's ageism. Show 'em how it's done!"

• Contact Betty Booker at (804) 649-6805 or bbooker@timesdispatch.com

Resources

■ **"Chairman of Your Board,"** by C. Mac Coiner
■ **"Retirement Countdown,"** by David Shapiro
■ **"IRAs, 401(k)s & Other Retirement Plans: Taking Your Money Out,"** by Twila Slesnick
■ **Web sites:**
www.socialsecurity.gov
www.ssa.gov
www.aarp.com
http://retireplan.about.com/
www.a-guide-for-seniors.com/Pages/Retirement_Countdown.html
www.asec.org/ballpark/
www.tiaa-cref.org/retready/
www.retirementcountdown.com
www.civicventures.org
www.nolo.com
www.varetire.org
■ **"The New Rules of Retirement,"** by Robert C. Carlson
■ **"Countdown to Retirement,"** by Kevin H. Myeroff
■ **"Get a Life: You Don't Need a Million to Retire Well,"** by Ralph Warner
■ **"Money Power for Retirement"** and **"Get Rich Slow,"** by Tama McAleese
■ **Social Security planners:** **www.ssa.gov/planners/** or (800) 772-1213. If you are deaf or hard of hearing, use the toll-free TTY number, (800) 325-0778.