FINANCIAL Smarts

Retirement Planning

Fall 2011

Financial Information You Can Use

Are You Looking at Retirement?

Don't Run With Your Retirement Money, a free guide from The Actuarial Foundation and the Women's Institute for a Secure Retirement, helps you understand choices and options as you plan for retirement.

The guide offers many questions for you to ponder, such as:

- How will you cover your **normal living expenses**, including taxes?
- What are the **needs of your spouse** and other dependent family members? Remember that your spouse may outlive you.
- How will you cope with **ongoing inflation**? Living costs are likely to rise year by year, and the effect over time can be very big. For example, at a three percent annual rate of inflation, a dollar today will be worth about 70 cents in 12 years.
- How can you handle **potential emergencies**, such as home or car repairs, unexpected medical bills or family emergencies? Can your funds cover these?
- Do you plan to **provide an inheritance** to your heirs or contribute to charity? How will you make sure you can do this?
- Can you **fulfill your retirement dreams**? For example, some people like to travel extensively early in retirement and may choose to withdraw large amounts early to do that.

It's important to not wait too long to seek advice!
You should get advice early on—at least three to five years before your scheduled retirement date. Also seek advice whenever an event in your life occurs that could change your financial situation.

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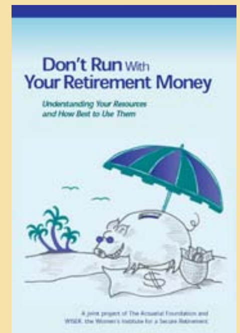

Access the booklet ***Don't Run With Your Retirement Money Understanding Your Resources and How Best to Use Them*** and other free resources at www.actuarialfoundation.org/programs/retirement.shtml.

Your Home as Retirement Income

Your home can be viewed as a retirement income resource. You could rent part of it to generate income or use a reverse mortgage, which uses your home's equity to pay you monthly income for life.

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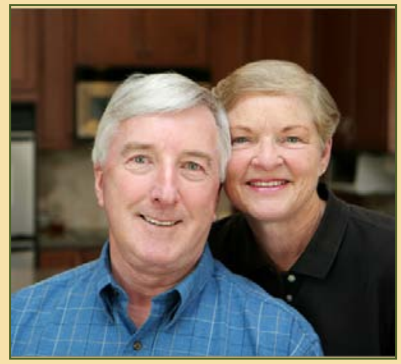
Retirement Sources Affect You Both



Whether you will rely on Social Security, employer-sponsored plans or personal savings, it is important to know how these plans can affect you and your spouse.

Some things to consider:

- Understand the impact on survivor benefits when applying for **Social Security**. Deferring your benefits for a few years can result in substantial protection for your surviving spouse.
- If you are the spouse of an employee who wants to receive a lump sum from a **defined benefit plan**, consider that you are waiving your right to pension payments in the event of your spouse's death. Think through other retirement income sources first.
- When you or your spouse move money from a **defined contribution plan** to an **Individual Retirement Account (IRA)**, make sure to use the direct rollover. If you do not, you'll pay a withholding tax, which you can get back, but it's not easy.

How to Take Your Money Out

With retirement assets come many distribution options.

Some ways to withdraw your money from retirement plans:

- **Defined Benefit Pension**: You can receive guaranteed benefits for life, receive a lump sum distribution or rollover the money into an IRA.
- **Defined Contribution Plan**: You can withdraw funds over time, receive a lump sum distribution, buy an annuity or rollover the money into an IRA.
- **IRA**: You can withdraw for expenses, buy an annuity or cash out some or all of it to spend/manage the money yourself.
- **Social Security**: You have no choice about how to receive your benefit, but you can decide when to start receiving it. The longer you put off applying for your benefits, up to age 70, the higher your monthly payment will be. For more information on this topic, read *When to Take Social Security Benefits: Questions to Consider*, which is available at www.actuarialfoundation.org/programs/ssmedicare.shtml.

Consider the Pros and Cons of Annuities

Pros:

- They guarantee income for life and give you a form of security that traditional investments can't.
- If you apply for Medicaid or other means-tested benefits, annuity benefits may not count as income in determining your eligibility.
- They may be a good option if you are a retiree who is older, in good health and ready to transfer the job of managing part of your assets to an insurer.

Cons:

- With most annuities, your choice is final—*you can't decide to change your mind once payments have begun*.
- If you are not in good health, with at least a normal life expectancy, an annuity will probably not end up providing you with a good return for the cost.
- They don't allow you to leave any of the money you pay for the annuity to your heirs unless you pay an extra price.

Other Related Resources

The Actuarial Foundation
www.actuarialfoundation.org/programs/consumer_education.shtml

AARP
www.aarp.org

Insurance Information Institute
www.iii.org

Internal Revenue Service
www.irs.gov

Social Security Administration
www.ssa.gov

WISER
www.wiserwomen.org