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21st century retirement

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Countdown to Retirement: Strategies for Saving in Your 50s

The baby boom generation is about to enter another era: retirement. Never known for accepting the status quo, baby boomers are ready to redefine the "golden years." Forget about endless days of leisure. This generation seeks adventure, travel, and new business pursuits. While these changes may redefine retirement, will boomers be able to finance their plans? Today, many people age 50 and older have not begun to save for retirement or have yet to accumulate sufficient funds.

If you are in this age group and find yourself facing an underfunded retirement, it is not too late to take charge. There are actions you can take today to get on the right track. Here are some ideas:

What's it going to take? First, estimate how much money you will need in retirement. Once you have an idea of the amount, you can work toward meeting that goal. A good rule of thumb is that you may need 60–80% of your current annual income in retirement. Your financial professional can help you assess the best amount for your situation.

Maximize your contributions. If your employer offers a retirement plan, consider contributing as much as the law will allow. In 2011, those age 50 and over can contribute up to $22,000 to an employer-sponsored 401(k) plan. Many employers also match contributions. Make sure you contribute enough to claim this "free" money, which can add up over time.

Create a spending plan. In other words, make a budget. Many people think a budget is restrictive, but look at it this way: You can spend now, or you can have the money to afford your dream adventures later. To start, it is important that you pay down debt and avoid accruing new debt. Next, examine your spending habits and replace some of your discretionary spending with saving. Saving even $20 more per week is a step in the right direction.

Take initiative. Besides contributing to your employer's plan, you can save more by opening your own Roth IRA. Contributions are made after taxes, but earnings and distributions are tax free, provided the account is at least five years old and you have reached age 59½. Those age 50 and over can contribute up to $6,000 a year in 2011. Eligibility for these

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Roth IRAs for Higher Income Taxpayers

In January 2010, the $100,000 adjusted gross income (AGI) ceiling on converting traditional IRAs to Roth IRAs was eliminated on a *one-time only* basis for that year under a special provision in the Tax Increase Prevention and Reconciliation Act (TIPRA) of 2006. All taxpayers, regardless of income level, who converted in 2010, could either pay the entire tax owed on the converted funds in 2010 or spread the payment of taxes out over 2011 and 2012.

For those who missed that window of opportunity in 2010, Roth IRAs may still offer potential advantages to taxpayers who expect to be in a comparable or higher tax bracket during retirement.

Unlike traditional IRAs, Roth IRAs have no minimum distribution requirements at age 70½. This makes the Roth IRA particularly attractive to individuals who wish to pass on their tax-free savings to heirs, rather than draw down the funds to finance their retirement. However, there may be estate tax implications. In addition, converting to a Roth IRA allows taxpayers to lock in a tax rate, whereas those with traditional IRAs will be unable to predict changes in the law or their own circumstances that could push them into a higher tax bracket in retirement.

Funded with after-tax dollars, Roth IRAs offer tax-free earnings and tax-free distributions. Note that because contributions to traditional IRAs may qualify for a tax deduction, any tax-deductible savings transferred from IRAs to Roth IRAs are taxed immediately. If nondeductible IRAs are converted to Roth IRAs, taxes are owed on accumulated earnings, but ***not*** on the principal. While contributions to a traditional IRA are not permitted over age 70½, there are no age restrictions on contributions to a Roth IRA.

Although the Roth IRA conversion rules in 2011 still allow conversions to a Roth IRA regardless of income, the 2011 IRS Roth IRA income limits for making a Roth IRA contribution involve your income level, tax filing status, and age.

Some restrictions do apply to Roth IRAs. Qualified distributions, including earnings, are tax free provided the account holder has reached age 59½ and has owned the account for five years. Withdrawals made prior to age 59½ may be subject to a 10% Federal income tax penalty. Certain qualified exceptions apply.

For specific guidance regarding Roth IRAs and your tax situation, be sure to consult with your tax professional. ■

Continuing Care Retirement Communities: Aging in Place

Do you sometimes think about what your retirement experience may look like? Most people imagine living independently in comfortable, safe surroundings, preferably residing in their own home. With longer life spans and advances in health care, many retirees, depending on their age at retirement, may have several decades to enjoy their "golden years."

Continuing care retirement communities (CCRCs) accommodate active older adults in single-family homes, apartments or condominiums for the duration of their life so they can age in place, without worrying about their future care. When assistance becomes necessary, they can move into an assisted living or nursing care facility within the same community.

The Cost of CCRCs

For a one-time payment plus a monthly fee, a contract entitles you to an apartment or home, meals, medical service and, if necessary, nursing home care. According to the American Association of Retired Persons (AARP, 2011), the one-time entry fee can range from $100,000 to $1 million, depending on the contract for levels of services, type of residence, and geographic location. Monthly fees can average $3,000 to $5,000 and more depending on an individual's state of health, whether renting or buying, how many will be living in the facility, and the type of service contract. There may also be additional fees for housekeeping, meal service, transportation and social activities. In return, **long term care** is guaranteed, according to the terms of the contract, and amenities typically include some meals, recreational and educational activities, scheduled transportation, and emergency help.

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Community Residences Vary

A CCRC can range from a high-rise building in an urban center to an apartment complex in a small town. They can be found in virtually every state; however, California, Florida, Pennsylvania, Oregon, and Washington have been the trendsetters for CCRCs, either in number of facilities available or having state legislatures that are supportive of long term care facilities.

Seek Legal Advice

If you are considering this retirement option, it is important to get legal advice due to the complexity of CCRC contracts. You should plan to visit the facility and ask to see licensing and inspection reports, and any complaint investigations.

Additionally, you can research the community's principal owners to assess their financial stability and reputation among aging and retirement communities. Most states offer some level of CCRC regulation. Be sure to contact your state's insurance commission to request a copy of the facility's latest audit report. ■

Social Security Update for Retirees and Workers

Several new changes to the delivery system of retirement benefits have been introduced by the Social Security Administration (SSA), which may affect both workers who are not yet receiving benefits and current retirees. According to the SSA, the impetus for this reform came from the agency's need to save money at a time of governmental fiscal restraint.

These are some of the recent changes announced by the SSA for current and future beneficiaries:

Annual benefit statements stop. As of April 2011, the SSA stopped mailing out its yearly estimate of Social Security benefits to workers under age 60 and retirees already receiving benefits. SSA's decision to suspend the annual mailing, as well as online or telephone requests for benefit statements, is considered to be only a temporary measure to cut costs through the end of the year, with the expectation of saving over $30 million. However, the elimination of statements may become permanent. The SSA website now provides an online estimate calculator for those who want to obtain an estimate of future benefits.

Paper checks no longer issued. On or after May 1, 2011, individuals who applied for Social Security benefits will no longer have the choice of receiving their check by mail. Retirees now have the option of receiving benefits through Direct Deposit or a prepaid Direct Express Debit MasterCard.

"Do-over" option eliminated. The "reset" or "do-over" option that allowed Social Security recipients who started receiving benefits at 62 to pay back all previously received benefits with no interest and penalties, and then re-file at age 70 at a higher benefit rate, is no longer available. With the new ruling, beneficiaries will be permitted to withdraw an application for benefits only once, which must occur within 12 months of receiving their first payment.

Retroactive benefit suspensions discontinued. Recipients will no longer be able to ***retroactively*** suspend benefits and pay back what was already received to get higher payments in the future, but they will still be allowed to ***temporarily*** suspend benefits and restart their payments later.

Social Security taxes reduced. Under the Tax Relief, Unemployment Re-Authorization, and Job Creation Act of 2010, Social Security taxes will ***temporarily*** be cut from 6.2% of workers' gross pay up to $106,800 to 4.2% in 2011, providing a 2% reduction in taxes applied directly to paychecks. The tax rate for self-employed workers will also be lowered ***temporarily*** from 12.4% to 10.4% in 2011. This ***one-time only*** provision for a Social Security tax break in 2011 is intended to stimulate the economy by encouraging more spending.

For further information on changes to Social Security or to get an estimate on future benefits, visit www.ssa.gov/estimator. ■

The ABCs of Estate Planning

Estate planning is an important part of life for all individuals, regardless of income level or accumulated assets. The greatest benefit may be in knowing that your wishes will be respected. Naming your heirs—and relieving them of unnecessary costs and stress by carefully designating which assets they will receive—is preferable to having a court make these decisions for you.

The estate planning process not only includes choosing what to leave your heirs, but can also establish vehicles—such as **trusts**—to protect your assets and minimize estate taxation. Trusts can be set up to make sure your assets will be distributed according to your directions. In the event of mental or physical incapacity, an estate plan also gives you the opportunity to select the people you want to help care for you and your property. Two important tools are a **durable power of attorney** and a **health care proxy**. You may also want to include a **living will** among your estate planning documents, which lets your family members, health care providers, and a hospital know what your decision is concerning life-sustaining measures.

It is important to carefully consider an estate plan so that your wishes will be followed, and provisions will be made for your family and loved ones. ■

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plans begins to phase out with adjusted gross incomes of $107,000–$122,000 for single filers and $169,000–$179,000 for joint filers.

Hang out your shingle. Many boomers hope to start their own businesses in retirement. Why wait? If you begin your entrepreneurial efforts now, your business has the potential to be in full swing by the time you retire, and any profits between now and then can be added to your savings.

Move it or lose it. Your home may have significantly increased in value since you first bought it, and you may have already paid off the mortgage. With children at or near adulthood, do you really need all that space? Selling now and moving to a smaller, more affordable location may allow you to transfer some of the equity in your home into a savings vehicle.

Reconsider your retirement age. If you want to cushion your retirement savings, consider staying on the job longer. Some people actually leave retirement to re-enter the workforce because they feel more fulfilled while working. Others seek part-time work, consulting, or entrepreneurial endeavors. Such options may enable you to earn more money to save, which may help to postpone spending down your savings.

Regardless of which options you choose, you can benefit from time and compounding interest. Every year that your savings remain untouched allows more time for growth. It is never too late to start preparing for your future. So, take action *now* to get on track to saving for your retirement. ■