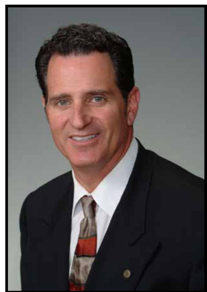
volume 14, number 2

21st century retirement



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Many people may be unaware of the amount of savings they will need for a comfortable retirement, according to The 2011 Retirement Confidence Survey by the Employee Benefit Research Institute (EBRI). The annual survey is designed to assess the attitudes and behavior of American workers and retirees toward all aspects of saving, retirement planning, and long-term financial security.

Survey results indicate that only 13% of workers feel very confident about financial security in retirement, which is the lowest level in two years, while 27%, the highest percentage in 21 years, are not at all confident in their ability to fund a comfortable retirement. Perhaps more alarming is the fact that 29% of all workers surveyed say they have less than $1,000 saved for retirement, and only 42% have tried to calculate how much they need to save to live comfortably in retirement. Based on these and other findings, Americans have a crucial need to make saving money and financial management a top priority in preparation for retirement.

Where to Begin?

So, what can *you* do to start saving more and spending less? A sound plan begins with saving three to six months' worth of income in case of unexpected or emergency expenses. Cars break down, roofs leak, and other "surprises" often seem to come out of nowhere. An emergency fund can help ensure these needs will be met as you continue to build your financial future. Once you calculate the amount you need to set aside, establish a monthly goal for saving toward this emergency fund, and pay it regularly like any other expense until you have reached the predetermined amount. An emergency fund should be conserved in a relatively liquid, low-risk account.

A cash reserve is your first step toward building financial security. You may want to also use some of these smart, money-saving tips to reach your retirement goals, and develop a healthy spending and saving plan:

Stash it before you cash it. Many employers offer some type of retirement savings plan, such as **401(k)s**, **403(b)s**, or **457s**. Sign up and allocate a certain amount or percentage of your paycheck to be directly deposited

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money-saving tips for your future

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into a retirement account. This money is deducted from your income *before* taxes, and may have a relatively minor effect on your net pay. Further, if your employer offers **matching contributions**, consider contributing enough to receive the full company match, which is "free money" to plan for your future.

To enhance your personal savings, consider signing up for automatic transfers from your checking account to your savings account or an **Individual Retirement Account (IRA)**. A general rule of thumb is to increase the percentage you save when you get a raise. This way, your savings have the potential to grow along with your income and outpace the eroding power of inflation.

More than half (56%) of the people surveyed who are saving for retirement report that the value of their savings and investments, excluding the value of their primary home and defined benefit plans, is under $25,000. So, by saving a mere $20 per week, you could accumulate $1,040 at the end of the year. With a 5% annual return and 25 years of saving, those $20 contributions could amount to well over $50,000.

Set limits. Take the time to calculate a reasonable spending allowance for a week. At the beginning of each week, withdraw that amount and limit your spending. A simple budget can help you prioritize your necessities.

Use tax advantages when available. If your employer offers **flexible spending accounts (FSAs)**, you may contribute pre-tax earnings for medical and dependent-care expenses. But, make sure to use the entire contribution amount before the end of the year, as any remainder will be forfeited.

Pay yourself. When your credit card, new car, or school loan is finally paid off, consider "continuing" those payments by making deposits into your own savings account. Eliminating debt will increase your net worth, and by continuing to build your savings, you can increase your assets.

Contribute to your piggy bank. Loose change adds up over the course of a year. Pay for everything with bills, and make nightly change deposits into the piggy bank. To take this a step further, consider occasionally depositing one dollar bills or even five dollar bills. If this is done faithfully, you may save a considerable amount by the end of the year.

Conserve any windfalls. Every now and then, you may receive a large amount of cash all at once, such as inheritances, tax refunds, and company bonuses. Those items you have desired may now seem just a transaction away, but hold on! Why not allocate the amount received into three portions: one for long-term savings goals, one for short-term savings goals, and to reward yourself, one portion for spending. This way, you will get to splurge on something you want, while also continuing to save.

Have fun for free. Sometimes, we spend money out of carelessness or boredom. Make a list of fun and inexpensive things to do, and when you feel cash burning a hole in your pocket, go for a hike, visit a museum, or take a drive through the country instead. Think about your list, and stick to it whenever you feel like buying useless items. By weeding out the unnecessary from what you need, you will be that much closer to achieving your financial goals.

Saving to meet short- and long-term goals doesn't have to be difficult, but it does require a *proactive* approach. With a little time and effort, your dreams for retirement may become a reality. ■

Considerations for Living Beyond Your Retirement Age

It is no longer unusual for people to live 20 or more years beyond their normal retirement age. But, a financial plan that was satisfactory for retiring at age 65 may not be sufficient to maintain a comfortable lifestyle into your 80s and 90s, and may require a review with a qualified professional. Other areas of concern to consider how longevity may affect your retirement include asset management, health care expenses, and living arrangements.

Managing Your Assets

The possibility of declining health is a subject that nobody likes to think about. However, if you should lose the cognitive ability to manage your assets, whether due to a progressive illness or an accident, there are a variety of options that will allow you to transfer that responsibility to others. Among them are the following:

Revocable Trust. If you would like to *retain control* over your property, while delegating the daily management to others, you may want to consider a **revocable trust**. This type of trust allows you to monitor the management of your assets, yet offers the flexibility to change the trust as your needs and circumstances warrant. As added protection, a revocable trust may remain unfunded, as long as you are legally competent.

Durable Power of Attorney. This allows you to designate a trusted relative or friend to make legal and financial decisions for you in the event of a disability or cognitive impairment. The powers granted may be limited or broad in scope, and they may vary from state to state. Some financial institutions are reluctant to recognize durable powers of attorney, so it is worthwhile to thoroughly explore this option beforehand.

Informal Arrangements. You could transfer property *informally* to your heirs—in some cases, free of gift taxes—in exchange for being taken care of for the rest of your life. This arrangement, however, should be approached with caution. Even well-meaning adult children may unintentionally deplete assets through poor management, divorce, or creditor claims. Once your assets are gone, you could become dependent on the goodwill and financial assistance of others.

Health Care

With soaring U.S. health care costs, you will need to prepare for the possibility of higher medical expenses living beyond the normal retirement age. The **Medicare** and **Medicaid** Federal/state-funded programs provide *some* health care benefits, but it is important to understand your coverage and what out-of-pocket costs you may need to pay.

Medicare Part A covers inpatient services at hospitals and care for specific medical conditions at skilled nursing facilities for a limited duration. It is provided automatically, at no cost, for individuals age 65 and older who are eligible for Social Security. **Medicare Part B** helps cover medically-necessary services, such as doctors' office visits, outpatient care, and other medical services that Part A does not cover.

Medicaid covers long-term nursing home care for those with few or no assets, and has strict eligibility requirements based on financial need.

Living Arrangements

Many individuals age 55 and older with an active lifestyle may wish to remain in their own homes or move to a **retirement community for independent living**. Those who remain at home may be able to maintain their independence longer by hiring home health aides, assistance from family members, community-based services, or a combination of all three. For example, **adult day health centers**—either publicly or privately funded—offer supervised day programs that promote social stimulation and physical activities for older adults.

If you require more assistance with activities of daily living, such as personal care, dressing, meal preparation, and medication monitoring, **assisted living facilities** can provide a secure environment with an atmosphere of independent living. **Continuing care communities** offer the opportunity to age in place with a combination of independent living, assisted living, and more skilled nursing care on one campus.

The cost of living in all of these communities varies by type of accommodation, levels of assistance needed, and geographic location, and will continue to rise to keep pace with inflation.

It is important to periodically review and update your retirement strategy so that it encompasses the costs associated with life planning beyond your normal retirement age. Be sure to consult with a qualified professional for guidance regarding your particular situation. ■

Putting Pieces of the Retirement Puzzle Together

If life is a journey, retirement is the destination where you reap the hard-earned rewards for decades of working. But, as with most good things in life, a comfortable retirement doesn't just happen without effort. It requires a sound, comprehensive financial strategy.

Retirement planning can be like a jigsaw puzzle. Once you put the interlocking pieces together, you will be ready to develop a retirement plan that will meet your financial goals. Let's look at the following four pieces of the puzzle:

1. Social Security—Most working Americans will receive Social Security benefits that provide a basic level of retirement income based on the length of time worked, amount of earned income, and age at retirement.

2. Employer-sponsored pension plans—If you have a defined benefit or pension plan, your employer provides a retirement benefit in the form of either monthly income or a lump sum. The amount of your benefit is generally based on your salary, length of service, and a benefit formula that averages the employee's earnings over a prescribed period of time.

3. Employer-sponsored retirement plans—If your employer sponsors a defined contribution plan, such as a 401(k), you may contribute a percentage of your pre-tax income to a retirement account, as defined by the company plan. Your employer may also match a percentage of your contributions. Earnings have the potential to grow tax deferred.

4. Personal savings—Personal retirement savings may be key to achieving your financial goals. A disciplined savings program can help you accumulate additional assets to supplement Social Security benefits and employer-sponsored plan funds.

Your first step is to assemble the pieces of your retirement planning puzzle to determine if your projected income and assets will be sufficient to fund a comfortable retirement. Although Social Security and any employer-sponsored pension plan offer relatively fixed benefits, you may be able to increase your 401(k) contributions and personal savings to supplement any expected shortfall. Regular contributions and tax-efficient vehicles can help build your assets over time.

If possible, maximize contributions to your 401(k) or other employer-sponsored retirement plan. Contributions to a 401(k) come from pre-tax salary, and taxes on both contributions and earnings are deferred until you retire. Note that there are limits to the amount you can contribute each year.

You may also choose to contribute to an Individual Retirement Account (IRA). If you are under age 50, up to $5,000 may be contributed to an IRA or a combination of IRAs in 2012. For those age 50 and over, an additional $1,000 may be contributed. Contributions to a traditional IRA may qualify for a tax deduction, and earnings have the potential to grow tax deferred. However, taxes will be owed on withdrawals in retirement, without penalty, if you are over age 59½.

Contributions to a Roth IRA are not tax deductible, but earnings have the potential to grow tax free. Distributions in retirement are also tax free, provided you have owned the account for five years and are at least age 59½.

Whether you are in your 30s, 40s, or 50s, *now* is the time to start planning for your retirement. Be sure to consult a qualified financial professional to help you devise a strategy for the retirement you envision. ■

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