



# Guidebook to Help Late Savers Prepare for Retirement

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*Part One*  
**CATCHING UP AND PLANNING AHEAD**

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# ► Acknowledgments

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# ► Part One

## Catching Up & Planning Ahead

*It's Not Too Late*  
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### It's Not Too Late

This guidebook is for people who know they should have saved more when they were younger...but didn't. Perhaps you simply spent everything you earned, lacked an employer retirement savings plan, or experienced a major financial setback such as illness, divorce, or unemployment. The good news is it's not too late to take action to secure your future. If you believe you are behind in preparing for retirement, this guidebook can help you make adjustments that can compensate for lost time. More than a dozen financial catch-up strategies are described to provide you with options for planning your future.



### Take Advantage of Time

Remember that your investment time horizon is the rest of your life—not your retirement date. This means that, if you are 45 years old today and live to age 90, you have 45 years for your money to grow through the power of compound interest. However, your assets should be invested aggressively enough to offset the effects of taxes and inflation. This means considering some stock or growth mutual funds in your investment portfolio.

### Start Today

If you're discouraged about what you haven't done to prepare for retirement, it's time to stop, review, and take action to create a secure future. Today is the first day of the rest of your financial life. This guidebook can help you retire with more financial resources. It includes brief descriptions of various financial catch-up savings strategies, case study examples, worksheets, and action steps to help you put the information to work.

You've probably heard the saying, "If it is to be, it is up to me." Use this guidebook to help you plan for the future and make up for lost time. The rest is up to you.

### How Much Money Will I Need to Retire?

It depends. That's the answer to the age-old question, how much money will I need to retire? Some people can live happily on half of their preretirement income while others require 100% or more to maintain, or even enhance, their lifestyles. For many people, 70% to 80% of the amount earned during their working years is

a realistic income replacement percentage; these figures are commonly quoted in financial publications.

When it comes to retirement planning, there is no “one size fits all” answer. A lot depends on your goals (such as traveling and pursuing hobbies) and lifestyle decisions (such as where you choose to live), as well as available resources such as an employer pension and/or free or low-cost retiree health insurance. Other important factors to consider are age at retirement, expected life span, health status, family responsibilities (caring for aging parents or grandchildren, for example), and inflation.

Michael Stein, author of *The Prosperous Retirement*, notes three distinct phases of retirement: active (go-go), passive (slow-go), and final (no-go). Expenses during the early years (active phase) of retirement can equal or exceed those during the years before. Often, expenses decrease in later years but may increase during the final phase due to medical and/or long-term care costs.

To determine your retirement savings needs, a group of researchers, Tacchino and Saltzman, suggests using a “blended income replacement rate” to adjust for decreased expenses as retirees get older. Illustrated in Table 1, a blended income replacement rate uses an average of different income replacement percentages to reflect different spending levels throughout retirement. For example, Stan and Sue Olek, both age 50, have a preretirement income of \$50,000. They plan an initial retirement income replacement ratio of 80% (\$40,000), but believe that they will spend less as they get older. Their blended income replacement ratio, for a 30-year retirement period, would be 69.3% as shown in the following table (or \$34,650), which accounts for different spending levels throughout retirement.

**Table 1**  
**Blended Income Replacement Ratios**

Life Expectancy	Income Replacement Ratios at Start of Retirement			
	80%	75%	70%	65%
After Retirement				
10 years	.800	.750	.700	.650
15 years	.750	.700	.654	.610
20 years	.720	.675	.630	.585
25 years	.704	.660	.616	.572
30 years	.693	.652	.608	.565

**Source for Table 1:** Tacchino, J.D. & Saltzman, C. (1999, February). Do accumulation models overstate what’s needed to retire. *Journal of Financial Planning*, 12(2), 62-73.

The best way to make an accurate estimate of how much you’ll need is to track your current living expenses for six months to a year. Then, use this information to project the amount of income you’ll need in the future.

Keep in mind that certain expenses may end or decrease in retirement, including:

- Commuting costs and business travel
- Union dues and/or professional dues
- 401(k) plan contributions and Social Security tax deductions
- Business clothing
- Work-related social expenses
- Automobile expenses

- Income taxes
- Mortgage payments
- Child-rearing expenses

In addition, perhaps your mortgage will be paid off by the time you retire and you will have launched your children successfully into adulthood.

Also, consider expenses that are likely to begin or increase during retirement, including:

- Travel, entertainment, and hobbies
- Medical and dental expenses
- Medigap health insurance premiums and/or long-term care insurance
- Gifts to children and/or grandchildren
- Volunteer expenses (for example, commuting and contributions)
- Care of elderly parents

Also, inflation may increase expenses over time. Thus, factor a reasonable annual inflation rate (3% to 5%) into retirement savings calculations. You may also want to maintain a cash reserve large enough to cover several years worth of expenses so you can avoid selling investments at a loss during extended market downturns.

Ideally, your retirement savings analysis should be accurate enough that you don't save a lot more money than you need—nor do you need to drastically lower your standard of living. Five key variables in a retirement savings analysis are:

**Age at Retirement:** Retiring before age 65 has been an increasing trend in recent years, but the downside is that early retirees have fewer years to save, fewer years for their savings to grow, and a longer time period to sustain themselves on invested assets. A major factor affecting when you retire is the availability and cost of health insurance.

**Amount of Annual Income Needed:** To figure this, use the income replacement ratio in [Table 1](#). A recent study of the spending patterns of people in two different retirement phases (age 65 to 74 and 75 and over) found that, in the first phase of retirement, individuals spent 71% of preretirement income. In the second phase, however, spending decreased sharply to only 50%.

**Growth Rate on Savings:** A savings analysis should reflect the average rates of return actually earned on all investments. While stocks have averaged about 10% annually since 1926, it is generally not prudent to invest in stocks alone due to the increased investment risk. In addition, only half of Americans invest in stock or growth mutual funds at all. More than \$1 trillion is placed in low-yield savings accounts, often earning less than the rate of inflation. Make sure you use a realistic rate of return based on your portfolio mix. If you have 50% of your assets in stocks or stock mutual funds, and 50% in bonds or Certificates of Deposit (CDs), use a blended rate of return. (A blended rate of return is an average of the different returns on different types of assets—the blended rate is often 6% to 7%.)

**Life Expectancy:** In just one century—from 1900 to 2000—our average life expectancy has increased by about 30 years. Many people are living into their 80s and 90s. Since nobody has a crystal ball, the next best thing is to start with the average life expectancy figures for your gender and current age, and then make adjustments for factors such as good health and longevity of family members (for

example, add five to 10 years). You don't want to run out of money because you estimated your needs to age 85, but then live to 92!

**Amount of Money Currently Saved:** Obviously, the more you have already saved for retirement in accounts such as IRAs and other tax-deferred saving vehicles, the less you'll need to save in the future. In addition, the longer money is maintained in tax-deferred accounts before mandatory withdrawals are required at age 70-1/2, the longer it will last.

## Retirement Planning Worksheets

Hundreds, if not thousands, of retirement planning worksheets and calculators are available in print and online. Some keep calculations simple by making assumptions about one or more of the key variables mentioned previously. Others allow you to make your own assumptions. To interpret the output correctly, you will need to understand all of the assumptions used in an analysis.



A simple way to get a general idea of how much you need to save is to use the American Savings Education Council's Ballpark Estimate worksheet. In its calculation, a variety of life expectancy factors can be used and the investment return is assumed to be 3% after inflation. Complete one online at [www.asec.org](http://www.asec.org) or [www.choosetosave.org](http://www.choosetosave.org).

To complete a realistic retirement savings analysis, you need to know how much you will receive from Social Security and/or employer pension plans. Each year, the Social Security Administration sends workers a retirement benefit estimate statement that shows what they'll receive at ages 62, 65, and 70, in today's dollars, based on prior earnings. If you do not have this statement, contact the SSA at 1-800-772-1213 and request form SSA-7004 (or download a copy from [www.ssa.gov](http://www.ssa.gov)). For a rough estimate of the amount you will get from Social Security, use the Benefit Calculator at [www.socialsecurity.gov](http://www.socialsecurity.gov).

To make sure you include all possible income in your analysis, make a list of employers you have worked for and identify those that had a pension, 401(k), or other savings plan in which you are vested. Vesting means that you have worked for an employer long enough to earn the right to receive retirement benefits if you resign or are dismissed. Contact these employers and request a pension benefit estimate. You can also search for information about pensions through the Pension Benefit Guaranty Corporation Web site at [www.pbgc.gov](http://www.pbgc.gov).

Be conservative and realistic when including other sources of income in your retirement savings calculation. Returns on certain investments, such as stocks, are unpredictable. If you plan to sell your home at a profit, subtract the cost of a new house or condo, plus moving expenses. If you plan to work after retirement, consider that you may only be able to do so for a certain number of years. In addition, you may need to plan around limits on the amount Social Security recipients age 62 to 64 can earn without affecting their benefits.

## Retirement Catch-Up Strategies

Compound interest is the interest you receive on both reinvested interest and on the original amount invested. Unfortunately, compound interest is not retroactive. In other words, it is impossible to earn interest on money that was never saved years before. That's the bad news.

The good news is that late savers have more than a dozen different ways to make up for lost time. All of these methods fall into one of two basic strategies:

- Take action before retirement to increase retirement savings.
- Take action after retirement to decrease the amount of savings required to live on.

Fortunately, even if you haven't saved a dime, time is still on your side with both of these strategies. For example, if you're 50 years old and your savings from today forward earn an 8% return, your money, simply left to accumulate, will double every nine years at ages 59, 68, and 77—and possibly even at ages 86 and 95—according to the Rule of 72.

The Rule of 72 is a quick way to figure out how long it takes a sum of money to double with compound interest. Simply divide 72 by the interest rate you're earning (for example,  $72 \div 8\% = 9$  years). Or, divide 72 by the time frame in which you want to double your money and solve for the required interest rate (example:  $72 \div 10$  years = 7.2%). In either case, the growth of money after several rounds of earlier doubling is impressive.

Like many decisions in life, catch-up retirement planning requires trade-offs. For example, you might spend less now in order to save more in a tax-deferred plan or delay retirement in order to earn additional retirement benefits and/or save more money. The retirement planning process proves the cliché that “there is no such thing as a free lunch.” All decisions do have their costs.

Although various catch-up strategies are explained individually, keep in mind that you can easily combine two or more of them. For example, you might (1) [invest more in a 401\(k\)](#) and [move to a less expensive location](#), or (2) [moonlight for additional income](#) and [delay retirement](#).

The bottom line is that **it's not too late to get started**. Catch-up savers who are just beginning to plan for the future still have many options. By using the strategies on this Web site, financial “late bloomers” may afford to retire comfortably and have their money last as long as they do.

## Tax Incentives to Make Up for Lost Time

If there was ever a good time to be a late saver, this is it. Thanks to provisions in the 2001 tax law, many of which were made permanent in 2006 pension legislation, American workers have a wonderful opportunity to save money in tax-advantaged accounts. Increased retirement plan contribution amounts, coupled with extra “catch-up” savings and the power of compound interest, can greatly enhance your future financial security.

### Higher Contribution Limits

Starting in 2002, escalating annual contribution limits have applied to both Roth and Traditional individual retirement accounts (IRAs). IRAs are tax-deferred retirement savings plans available to all workers with earned income (wages and self-employment earnings), subject to certain adjusted gross income limits.

Escalating maximum annual contribution limits have also applied to tax-deferred retirement savings plans available through employment: 401(k)s for employees of private corporations; 403(b)s for employees of schools, colleges, and nonprofit organizations; and Section 457 deferred compensation plans for state and local

government workers. In addition, a catch-up provision exists for people age 50 and older for both IRAs and tax-deferred employer plans.

Table 2 shows the maximum contribution that all workers and those age 50 or older can make to IRAs and tax-deferred employer retirement plans for 2006 and beyond.

**Table 2**  
**Maximum Retirement Plan Contribution Limits**

<b>IRAs (Roth or Traditional)</b>		
2006-2007	\$4,000 + \$1,000 catch-up (\$5,000: age 50 or older)	(all workers)
2008	\$5,000 + \$1,000 catch-up (\$6,000: age 50 or older)	(all workers)
After 2008	Maximum IRA contributions are inflation-adjusted in \$500 increments	

<b>401(k), 403(b), and 457 Plans</b>		
2006	\$15,000 + \$5,000 catch-up (\$20,000 total: age 50 or older)	(all workers)
After 2006	Maximum employer plan contributions are inflation-adjusted in \$500 increments	

Workers who take advantage of the higher contribution limits for 401(k)s, 403(b)s, and 457 plans will save \$30,500 more between 2002 and 2010 than they would have under the previous tax law. Older workers, who are also eligible for the catch-up provision, can contribute an additional \$35,000. The grand total is \$65,000 of tax-deferred savings, plus the earnings on that money and possible additional employer matching.

### **Tax Credit for Retirement Plan Contributions**

The 2001 tax law provides an income tax credit of up to \$1,000 for lower-income workers to save for retirement through IRAs or employer plans. Like the earned income tax credit and child credit, this credit is subtracted dollar for dollar from the amount of income tax a taxpayer owes.

The tax credit is available to single taxpayers with an adjusted gross income (AGI) up to \$25,000 and couples with an AGI of up to \$50,000. Workers under age 18, full-time students, and persons who are claimed as dependents are ineligible. The amount of the credit decreases from 50% to 20% and then to 10%, as taxpayers' income increases as shown in Table 3.

A tax credit is much more valuable than a tax deduction, so try to make the most of it. Retirement plan contributions do not have to be made all at once—you can save the money gradually as you earn it, on your own, or via payroll deduction.

**Table 3**  
**Tax Credit for Retirement Plan Contributions**

Percent of Credit	Single	Head of Household	Married Filing Jointly
50%	\$0–\$15,000	\$0–\$22,500	\$0–\$30,000
20%	\$15,001– \$16,250	\$22,501–\$24,375	\$30,001–\$32,500
10%	\$16,251– \$25,000	\$24,376–\$37,500	\$32,501–\$50,000
0%	\$25,001 and up	\$37,501 and up	\$50,001 and up

**Note:** The income levels listed above are for adjusted gross income—gross income minus certain allowable expenses such as alimony and contributions to retirement plans.

### **Savings Opportunities for Small Business Owners**

The 2001 tax law increased the amount small business owners and their employees can contribute to tax-deferred retirement savings plans. The maximum contribution to Savings Incentive Match Plan for Employees (SIMPLE) is \$7,000 in 2002 and will increase \$1,000 each year (to \$8,000 in 2003 and \$9,000 in 2004) until it reaches \$10,000 in 2005. After that, the limit will be indexed for inflation. Maximum annual contribution limits also increased in 2002 for Simplified Employee Pension (SEP) and Keogh retirement savings plans.

### **Other Savings Opportunities**

Another beneficial 2001 tax law change is that when funding a tax-deferred plan, you are no longer limited to 25% of your gross income. Low-income workers who can afford it (for example, those with another major earner in their household) can contribute 100% of their earnings up to the maximum dollar limit allowed annually by law.

Since 2002, rollovers between different types of employer-sponsored retirement plans are now more flexible. This makes it easier to transfer retirement plan savings when you change jobs and keep your savings growing tax-deferred.





# ► *Part Two*

## Strategies to Increase Retirement Savings

*Increase Contributions*

*Accelerate Debt Repayment*

*Moonlighting*

*Invest Assertively*

*Maximize Tax Breaks*

*Diversify & Average*

*Savings Plans*

*Lump Sum Distributions*

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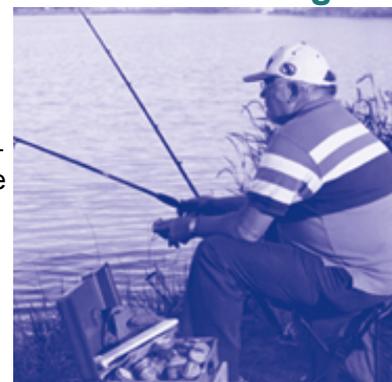
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Basically, there are two ways to make up for lost time and have adequate savings for retirement. The first is to take action that can result in a larger nest egg before retirement. The second is to take action to reduce the amount of savings required after retirement. The following eight preretirement strategies, explained in detail, are intended to result in increased retirement income.

### Increase Contributions to Increase Retirement Savings

A recent study found that Americans contribute an average of 6.8% of their pay to 401(k) retirement plans—far less than the maximum annual limit for many people. Thus, a clear catch-up strategy is to kick savings up a notch by contributing more to tax-deferred 401(k), 403(b), and Section 457 plans. The best times to do this are when you receive a raise, or other increase in income, or when household expenses, such as a car loan or child-care expenses, end.



Some tax-deferred plans also include matching employer contributions. For every dollar you save, your employer might kick in another 25 cents, 50 cents, or even a dollar, up to a certain percentage of your pay (for example, 6%). If you are not saving the amount required to earn the maximum match from your employer, you are essentially throwing away “free money.”

Table 4 shows the amount late savers can accumulate by age 65 by saving 2% of earnings annually or by a 1% contribution from you and a 1% match from your employer. The analysis assumes that savings earn a 7% average annual return and that a worker’s initial contribution is based on his or her current salary (for example, 2% of \$30,000 is \$600) and remains constant over time. If earnings and hence, retirement plan contributions, increase, the amount accumulated will be even higher. Taxes and inflation are ignored for simplicity.

**Table 4**  
**Savings at Age 65 from an Additional 2% Contribution to Tax-Deferred Savings**

Worker's Annual Salary	Age That Worker Begins Saving Additional 2% of Pay			
	40	45	50	55
\$ 20,000	\$25,300	\$16,398	\$10,052	\$5,527
\$ 30,000	\$37,949	\$24,597	\$15,077	\$8,290
\$ 40,000	\$50,599	\$32,796	\$20,103	\$11,053
\$ 50,000	\$63,249	\$40,996	\$25,129	\$13,816

**Source:** Future value of annuity table factors multiplied by 2% of four different salary levels with deposits held constant through age 65.

The Employee Benefit Research Institute's annual Retirement Confidence Survey consistently indicates that about half of American workers, both current savers and non-savers alike, believe it is possible to save \$20—or \$20 more—weekly for retirement. While saving \$20 per week does not seem like much, it results in more than \$1,000 per year, plus earnings provided by compound interest. Table 5, below, shows the impact of saving an additional \$20 per week. As you can see, seemingly small amounts can grow into substantial sums.

**Table 5**  
**Impact of Saving an Additional \$20 Per Week**

Number of Years of Savings	5% Average Return	10% Average Return
10 years	\$13,700	\$18,200
20 years	\$36,100	\$65,500
30 years	\$72,600	\$188,200

**Source:** Retirement Confidence Survey, Employee Benefit Research Institute

### Case Study

John and Elizabeth Bennett, both age 45, each contribute an additional 1% of their \$40,000 annual salaries to their 401(k) plans. Their employer matches their contribution equally up to the first 5% of pay. Assuming a 7% average annual return on their investments, in a diversified portfolio, at age 65 both spouses will have \$32,796. Together, they'll have more than \$65,000 additional savings simply by saving \$800 each per year. On a weekly basis, their \$800 deposits amount to about \$15, which they "found" by reducing some expenses.

### [Worksheet 1: Savings Resulting from Additional Tax-Deferred Contributions](#)

### Resources

- Use retirement savings calculators to perform calculations with different amounts of hypothetical savings. Visit the *Money* magazine Web site at <http://money.cnn.com/pf>.
- Consult with your workplace human resources office to determine how much money you are eligible to contribute to a tax-deferred savings plan, how much employer match is available, and the historical performance of different plan investment options. Attend workplace investment seminars, if offered, to increase your knowledge.

## Accelerate Debt Repayment and Spend Less

Saving for retirement and reducing debt are closely related. The sooner outstanding debt is repaid, the sooner monthly payments can be reallocated to retirement investments. In other words, compound interest will begin to work for you, rather than against you. Adding even small amounts to the minimum payment due on a credit card can produce dramatic results. Interest costs are reduced and the time required to repay a debt is shortened considerably.

According to the book *Slash Your Debt*, by Detweiler, Eisenson, & Castleman, saving and then adding your daily pocket change to minimum debt payments can make a big difference in borrowing costs as shown in Table 6. The analysis assumes three different outstanding balances, a 17% credit card interest rate, and a minimum payment of 2% of the outstanding balance.

**Table 6**  
**Saving Interest Payments and Time**

By making credit card payments beyond the required minimum, you can save the following amounts in interest and reduce the years in the repayment period.

Additional Daily Payment	\$5,000 Balance	\$10,000 Balance	\$15,000 Balance
10 cents	\$2,257–11 years	\$3,060–12 years	\$3,545–12 years
25 cents	\$4,148–19 years	\$5,970–20 years	\$7,112–21 years
\$1.00	\$7,624–30 years	\$12,615–35 years	\$16,168–36 years

Source: *Slash Your Debt* by Detweiler, Eisenson, & Castleman (1999, Financial Literacy Center)

If you have a balance of \$5,000 on a 17% credit card and pay only the minimum required each month, it could take 40 years to pay and your total interest charge would be \$16,304. By applying just 10 cents a day more to paying off your balance, you could save \$2,257 in interest costs and pay off your balance 11 years sooner. Plus, once you've paid off the debt, you can start investing that same amount of money—and start earning interest instead of paying it.

Additional ways to accelerate debt repayment and reduce the cost of borrowing include:

- Contact creditors and request a lower interest rate. Sometimes, they will comply because it costs them more than \$100 in marketing costs to replace you as a customer.
- Transfer outstanding balances to a lower-rate credit card and continue paying the amount that you paid before. Do be aware of balance transfer fees (such as 3% of the transferred amount).
- Transfer a high-interest credit card balance to a lower-rate secured or unsecured personal loan and pay it off in three to five years.
- Refrain from incurring new debt if your ratio of monthly consumer debt payments to net income is 15% or higher (example: \$350 of consumer debt ÷ \$2,000 net pay = 17.5%).

Many county Cooperative Extension offices provide free or low cost computerized debt reduction analyses called PowerPay. The program assumes that, when one creditor has been paid in full, that payment amount is then added to payments due to remaining creditors. The greatest savings usually occur by repaying the highest interest rate debts first (for example, 22% store credit cards). It also assumes that you do not accumulate new debt during the payoff process.

Most late savers can reduce household spending to “find” extra dollars to save for retirement and/or reduce debt. Use Worksheet 2 to estimate what you could save each month and during an entire year by cutting your spending in various expense categories.

### [Worksheet 2: Finding Money to Invest for Retirement](#)

#### Resources

- Use one of the many loan and budget calculators on the Internet; for example, Credit Union National Association’s Web site ([http://cucalc.cuna.org/calc\\_index.html?sub\\_id=0](http://cucalc.cuna.org/calc_index.html?sub_id=0)) to make estimates of the amount of money you can save by paying off debt quickly and reducing expenses.
- Read the book *Slash Your Debt* by Gerri Detweiler et al. to gain an appreciation of the amount of money you can save with various debt reduction strategies.
- You can also perform your own PowerPay analysis at [www.powerpay.org](http://www.powerpay.org).

### Moonlighting

If you decide to moonlight, be sure to set aside most—if not all—of the additional income for retirement. A second job, consulting, or self-employment through a home-based business in addition to your “day job” provides several benefits for catch-up savers:

- Increased household income and additional funds for retirement savings.
- Development of new career skills and a possible “bridge job” to work at following retirement.
- Access to tax-deferred SEP and Keogh plans designed for self-employed persons.
- Reduced taxable income with deductions for business-related expenses (for example, professional dues and travel) that might be limited as an employee.

This strategy is not for everyone, however. A major disadvantage of moonlighting is the time required for working additional hours. Plus, you’ll need to know a trade or have job skills (such as computer skills) that can transfer to another work experience. Also be prepared for any associated costs such as travel and equipment purchases.

Nevertheless, moonlighting can result in significant additional savings for retirement. Table 7 indicates the amount you can accumulate over a two-, 10-, 16-, and 20-year period with an annual deposit of \$5,000 of annual income derived from moonlighting.

**Table 7**  
**Retirement Savings Possible from Saving \$5,000 of Income Annually from Moonlighting**

Number of Years into the Future	5% Average Annual Return	7% Average Annual Return	9% Average Annual Return
2	\$10,250	\$10,350	\$10,450
10	\$62,890	\$69,082	\$75,965
16	\$118,288	\$139,440	\$165,017
20	\$165,330	\$204,978	\$255,800

### [Worksheet 3: Supplemental Income Planning Worksheet](#)

#### Resources

- Consult your local chapter of SCORE (Service Corps of Retired Executives) for free business counseling. Other helpful resources for new business owners include the U.S. Small Business Administration, business departments of community colleges, and local Chambers of Commerce.
- Use a financial calculator or the “What Will My Savings Be Worth?” calculator on the Reader’s Digest Web site ([www.rd.com/tools/alltoolist.jhtml#Money](http://www.rd.com/tools/alltoolist.jhtml#Money)) to determine how much money you could save from earnings by moonlighting.

### Invest Assertively

Historical investment data consistently uphold the following two principles:

- The more stock investors own, the higher their average annual return over time and the greater their portfolios’ volatility (ups and downs of share prices). U.S. stocks have earned more than 10% since 1926 compared to about 5% for Treasury bonds and less than 4% for Treasury bills, according to Ibbotson Associates, the Chicago investment research firm. Past investment performance is no guarantee of future earnings, however.
- Investment volatility is reduced over long time periods (10 or more years), a principle known as time diversification.

Another catch-up strategy, albeit with increased investment risk, is to place more stock in your portfolio before and/or after retirement. Remember, your investment time horizon is your entire life expectancy, not your retirement date. If you are 45, for example, you may have another 15 to 20 years before you retire and another 20 to 25 years of life expectancy afterwards. That’s plenty of time for compound interest to work its magic and to ride out painful market downturns such as those experienced during the 1970s and early 2000s.

As noted previously, the Rule of 72 estimates how long it takes a sum of money to double at different interest rates. To illustrate how decisions about what to invest in—a process known as asset allocation—affect the growth of an investment, consider the following example based on the Rule of 72.

Two 50-year-old workers change jobs and decide to invest their \$20,000 lump sum distributions from a 401(k) plan into rollover IRAs. Worker A invests the money very conservatively in bonds, money market funds, and Certificates of Deposit (CDs) that earn a 4.5% average annual return. Worker B invests in a total stock market index

fund that tracks a broad U.S. stock market index. The mutual fund earns a 9% average annual return, which is twice the return earned by Worker A. Ignoring taxes for simplicity, their rollover IRAs would grow as follows through retirement. Note that Worker B, with a higher average return, has four times as much money as Worker A because his or her savings doubles twice as often as Worker A, or four times instead of two.

**Table 8**  
**Comparison of Investment Growth at Two Interest Rates**

<b>Worker A</b> <b>72/4.5 = 16 Years to Double Money</b> <b>Age of Worker</b>	<b>Age of Worker</b>	<b>Worker B</b> <b>72/9 = 8 Years to Double Money</b>
\$20,000	50	\$20,000
	58	\$40,000
\$40,000	66	\$80,000
	74	\$160,000
\$80,000	82	\$320,000

**Note:** This example is for illustration purposes only and does not imply the future investment performance of any particular type of investment. The rates of return were assumed to illustrate the effect of the Rule of 72.

Of course, not everyone is comfortable with the ups and downs of the stock and bond markets. If you are a very conservative investor, this catch-up strategy is probably not for you. You can lose your principal and investment earnings are not guaranteed. But it probably makes sense to have at least a portion of your retirement savings in stocks or stock mutual funds, so you have some protection against inflation.

Be aware of your investment risk tolerance—how much you can afford to lose—and how well you can sleep at night after hearing about market downturns. Never invest in anything you don’t understand or feel comfortable owning. Understand the risks involved with each type of investment. Remember, a conservative investment with no fluctuation may seem risk free, but it may not provide enough growth to allow you to retire as planned.

**Case Study**

Soledad Ruiz, 52, just received a \$14,000 inheritance. She decided to pay off the \$4,000 balance on an 18% credit card—the equivalent of earning an 18% return, risk free and tax free. She places the remaining \$10,000 in a low-expense stock index fund. The fund averaged more than a 10% return over the past 10 and 20 years. At a 10% return, money doubles every 7.2 years, although she understands that past performance is no guarantee of future returns. If the mutual fund continues to perform as well as it did in the past, Ruiz could have \$40,000 by age 67.

**[Worksheet 4: Investment Risk and Planning Analysis](#)**

**Resources**

- To calculate your risk tolerance, complete the Rutgers Cooperative Extension Investment Risk Tolerance Quiz at [www.rce.rutgers.edu/money/riskquiz/](http://www.rce.rutgers.edu/money/riskquiz/) or visit

[www.kiplinger.com/tools/riskfind.html](http://www.kiplinger.com/tools/riskfind.html).

- Visit the Web sites [www.ibbotson.com](http://www.ibbotson.com) and [www.morningstar.com](http://www.morningstar.com) to obtain information about the historical performance of different investments.
- For mutual funds, review the prospectus, which indicates the fund's average annual total return over the past one, five, and 10 years. Past performance is no guarantee of future earnings, however.

## Maximize Tax Breaks and Reduce Investment Expenses

Compound interest works best when you can eliminate, reduce, or defer income taxes and keep investment expenses to a minimum. High income taxes and high expenses reduce investment performance. Table 9 shows the growth of a \$10,000 lump sum investment under three different scenarios: *no taxable gain on investment earnings* (for example, tax-free investments such as municipal bonds and Roth IRAs), *deferred capital gains taxes paid at a hypothetical 20% long-term capital gains (LTCG) rate*, and *taxes paid each year at a combined 31% federal/state tax rate*. The calculation assumes a 10% average annual return. Note that the gap in asset growth among the three investment scenarios widens substantially over time.



**Table 9**  
**Growth of \$10,000 Savings at 10% in Three Income Tax Scenarios**

Investment Time Period in Years	No Taxable Gain on Investment Earnings	Deferred Capital Gain Taxed at a 20% LTCG Rate	Capital Gain Taxed Annually in a Taxable Account
10 Years	\$25,937	\$22,750	\$19,488
20 Year	\$67,275	\$55,820	\$37,980
30 Year	\$174,494	\$141,595	\$74,017

**Source:** Updegrave, W. (2000, April). Taxing Matters. *Money*, 29(4), pp. 71-75.

Tax-exempt investments usually provide a greater return to investors above the 10% and 15% federal tax brackets. To determine your marginal tax bracket, based on taxable income and tax filing status, consult the tax tables in your annual income tax form mailing from the IRS or visit the Web site at [www.rce.rutgers.edu/money/taxinfo/default.asp](http://www.rce.rutgers.edu/money/taxinfo/default.asp). Or, visit the IRS Web site at [www.irs.gov](http://www.irs.gov).

Favorable long-term capital gains tax rates also help investors keep more of what they earn. As a result of 2006 legislation, these rates have been extended through 2010. Generally, the tax rate on long-term capital gains is no higher than 15% and is reduced to 5% (0% in 2008, 2009, and 2010) for taxpayers in the 10% or 15% marginal tax brackets.

The timing of a tax-advantaged investment also affects the amount that accumulates. Individual Retirement Account (IRA) contributions, for example, can be made on the first business day of each year up until April 15 of the following year. For example, if you saved \$2,000 annually in an IRA during the 20 years from 1981 through 2000, you would have accumulated an additional \$26,000 by making contributions early in the tax year rather than waiting until the deadline of April 15 of the following year. (This example assumes an investment asset allocation of 60% in stocks, 30% in bonds, and 10% in Treasury bills.)

Catch-up investors should also pay particular attention to investment expenses. Costs matter, especially over time. For example, say you invest \$25,000 in a mutual fund that earns 10% with an expense ratio (expenses as a percentage of fund assets) of 0.2%. Say your friend also invests \$25,000 and earns 10%—but the fund charges 1.3%. Over 20 years, you would earn \$31,701 more than your friend! The average expense ratio for mutual funds in 2001 was 1.34% (\$13.40 per \$1,000 of assets). Many investors are paying more than this, however, particularly for mutual funds that charge a 12b-1 fee (up to 1% of assets for marketing and distribution expenses each year).

Tax efficiency matters, too. While investors can't control their investment performance, they can select tax-efficient mutual funds that seek to minimize expenses and taxable distributions that are passed on to investors.

### Case Study

Jan Eckert is 51, recently divorced, and getting a late start saving for retirement. She kept the family home in her divorce settlement but had no retirement savings. Determined to make up for lost time, Jan recently opened a Roth IRA in a low-expense stock index fund with her \$1,000 year-end bonus and a \$2,500 cash transfer from her ex-husband. In addition she “found” \$100 a month to invest each month by reducing her spending. In 15 years, when she retires at age 66, Jan's \$3,500 lump sum and monthly deposits will have grown to \$46,370, assuming an 8% average annual return.

### [Worksheet 5: Tax-Advantaged Investment Analysis](#)

#### Resources

- Visit the U.S. Securities and Exchange Commission's Web site at [www.sec.gov](http://www.sec.gov) and click on “Interactive Tools.” The Mutual Fund Cost Calculator (to compare mutual fund costs) and the Tax-Free vs. Taxable Yield Calculator will be of particular interest to late savers.
- *The Retirement Catch-Up Guide* by Ellen Hoffman (2000, Newmarket Press). Chapter 6 provides information about tax-deferred retirement savings plans.

### Diversify and Dollar-Cost Average

Late savers may be tempted to invest in a few hot stocks or mutual funds to make up for lost time. This is rarely a good idea. People in their late 40s through 60s simply don't have much time to recoup their losses because they are so close to retirement. The risk in limiting investments to just a handful of companies or market sectors, such as technology, is the greater potential for loss that comes with reduced diversification.

A much safer investment strategy is to diversify—which means to distribute your money among different investments to reduce the risk of loss from a decline in any one investment. There are several easy ways to diversify investments:

- Place money in several asset classes (for example, stocks, bonds, cash, and real estate).
- Choose different investments within each asset class (for example, stock from different industries).
- Purchase investments, such as mutual funds and exchange-traded funds, that contain diversified portfolios of stocks or bonds.
- Purchase stock and bond index funds that track broad market indices.

- Purchase an asset allocation fund that includes three asset classes—stock, bonds, and cash.

Another important investment strategy is dollar-cost averaging—the practice of investing equal amounts of money at a regular time interval (such as \$50 per month), regardless of whether the investments' value is moving up or down. A common example is the amount workers contribute to tax-deferred retirement plans each pay period. Another example is monthly deposits that are automatically debited from a bank account and transferred into a mutual fund investment plan.

Dollar-cost averaging reduces the average cost of shares over time. Investors acquire more shares in periods of declining share prices and fewer shares in periods of higher prices. When dollar-cost averaging is practiced over long time periods, time diversification reduces investment risk. Table 10 shows a simple illustration of dollar-cost averaging. The average cost per share is \$7.06 (\$300 divided by 42.50 shares).

**Table 10**  
**Illustration of Dollar-Cost Averaging**

Time Period	Regular Investment	Share Price	Shares Acquired
Month 1	\$50.00	\$10.00	5.00
Month 2	\$50.00	\$8.00	6.25
Month 3	\$50.00	\$5.00	10.00
Month 4	\$50.00	\$10.00	10.00
Month 5	\$50.00	\$8.00	6.25
Month 6	\$50.00	\$10.00	5.00
Total	\$300.00		42.50

### [Worksheet 6: Personal Dollar-Cost Averaging Tracking Form](#)

#### Resources

- See *Investing For Your Future: A Cooperative Extension System Basic Investing Home Study Course*, available online at [www.investing.rutgers.edu](http://www.investing.rutgers.edu) (2002, Natural Resource, Agriculture, and Engineering Service, Ithaca, N.Y). Unit 2 discusses basic investment terminology and includes an example of dollar-cost averaging.
- *Investing For Success* is an investment program developed to increase the investment knowledge of African-Americans. Sponsored by the National Urban League, the Coalition of Black Investors–Investment Education Fund, and the Investment Company Institute, its online components include brochures, worksheets, and calculators found at [www.icief.org](http://www.icief.org).

### Have Multiple Savings Plans

Thanks to the 2001 tax law, contributions to different savings plans are no longer interdependent. Rules that coordinated the annual limit for contributions to tax-deferred 457 plans with contributions to other types of employer plans have been repealed. Thus, if you can afford it and have access through your employer, you can contribute the maximum amount allowed to more than one type of tax-deferred retirement plan, such as a 403(b) plan and a 457 plan.

For example, in 2002, workers under age 50 can contribute up to \$22,000 (2 x \$11,000) and workers 50 and older can contribute up to and \$24,000 (2 x \$12,000) to a combination of tax-deferred plans. These limits will rise each year, as explained in [Table 2](#).

In addition to tax-deferred plans, workers can also contribute the maximum annual amount allowed plus catch-up provisions (for those age 50 or older) to a Traditional or Roth IRA. Depending on your income, you may or may not get a tax deduction for contributions to a Traditional IRA. Roth IRAs are nondeductible but provide tax-free earnings after age 59 1/2 if you hold the account for at least five years. If you don't qualify for a Traditional IRA deduction and your income is too high to contribute to a Roth—more than \$110,000 for single taxpayers and \$160,000 for married couples filing jointly—you can still contribute to a nondeductible IRA, no matter how much money you earn.

## Preserve Lump Sum Distributions

When they change jobs, two-thirds of workers spend all or part of their lump-sum distributions from the employer instead of rolling them over into an IRA or other tax-deferred savings plan. Research indicates that the smaller the distribution, the more likely it is to be spent—even though taxes and penalties may be owed. Workers who believe that small distributions won't make a difference at retirement are badly mistaken, as the following example from the Employee Benefit Research Institute indicates.

### Case Study

Joe Grasso changed jobs every 10 years throughout his career (at ages 25, 35, 45, and 55). After leaving each job, he received a \$5,000 lump-sum distribution. If he rolled over and preserved all four distributions, he would have \$193,035 at age 65 (assuming an 8% average annual return). If he cashed out his distribution at age 25, while rolling over the final three, he would have less than half that amount (\$84,413) at age 65. If he cashed out the first two and three distributions, he would have only \$34,099 and \$10,795, respectively.





# ▶ Part Three

## Strategies to Stretch Retirement Income

*Trade Down to a Smaller Home  
Move to a Less Expensive Location*

*Delay Retirement  
Work After Retirement*

*Reverse Mortgages  
Asset Withdrawals*

*Part One*  
CATCHING UP

*Part Two*  
INCREASING SAVINGS

*Part Three*  
STRETCHING INCOME

*Part Four*  
CATCH-UP CONSIDERATIONS

*Part Five*  
CATCH-UP RESOURCES

*Part Six*  
REFERENCES & WORKSHEETS

So far, we've offered suggestions to increase your retirement nest egg by increasing savings, increasing household income, reducing debt and spending, taking advantage of income tax breaks, and investing wisely through diversification and dollar-cost averaging. This section describes six other ways to catch up financially by making various lifestyle decisions such as how long you work, where you choose to live, and how you tap your assets for retirement income.



### Trade Down to a Smaller Home

Your choice of retirement housing can greatly affect the amount you need to save for retirement. Trading down to a smaller home, say from a \$200,000 four-bedroom home to a \$90,000 two-bedroom condo, can be a very effective catch-up strategy. Benefits of trading down include:

- Proceeds from the sale (minus sales and moving expenses and the cost of a new home) are available to invest for future income.
- Maintenance costs, property taxes, and utilities on a smaller property are generally lower.
- May provide an opportunity to live in your current community, but at a reduced cost.

Thanks to 1997 tax law changes, you no longer need to consider age requirements before trading down. In addition, generous capital gains tax exclusions apply—\$250,000 for single taxpayers and \$500,000 for couples filing jointly—so most people won't owe taxes on the sale of their home.

Table 11 indicates the amount of income that could be available from varying levels of home sale profit, assuming a 7% annual return, exclusive of taxes and inflation. Of course, actual investment returns will vary with market conditions and fluctuate over time. Thus, it is wise to set aside a portion of investment earnings from years with high market returns to provide additional income during years when investment performance is below expectations.

**Table 11**  
**Annual Income from Different Levels of Home Sale Profit**

Amount of Home Sale Profit	Annual Income (Average Return of 7%)
\$25,000	\$1,750
\$50,000	\$3,500
\$75,000	\$5,250
\$100,000	\$7,000
\$200,000	\$14,000
\$300,000	\$21,000
\$400,000	\$28,000
\$500,000	\$35,000

### Case Study

Celia and Jack Doering, 52 and 54, recently sold their four-bedroom home and netted \$240,000 after sales expenses. They then bought a two-bedroom townhouse five miles from their previous home for \$120,000. The Doerings expect their monthly housing costs to decrease by almost \$400 with reduced property taxes, utility bills, and maintenance. With their home sale profit, the couple invested \$60,000 in a stock index fund for long-term growth and are investing \$10,000 a month over six months into a “laddered” portfolio of Treasury notes to provide monthly income. (In a laddered portfolio, the investments have different maturity dates.) They expect an average annual return of 7% on their home sale profit, or about \$8,400 annually without spending the principal.

### Worksheet 7: Proceeds from the Sale of My House

#### Resources

- For a professional estimate of the value of your home, contact a local real estate agent. The service is generally free because real estate agents hope you’ll contact them when you’re ready to sell.
- To compare expenses for different housing decisions, visit the Purdue University “Planning for a Secure Retirement” Web site at [www.ces.purdue.edu/retirement/Module2/module2.html](http://www.ces.purdue.edu/retirement/Module2/module2.html)

## Move to a Less Expensive Location

Another way to reduce living costs is to move to a less expensive location in the United States or even abroad. If you currently live in a high-cost area such as the Northeast or West Coast, retiring to a state in the South or Midwest is likely to reduce your living expenses. This way, you may be able to acquire similar square footage at a reduced cost—and not have to sell a lot of possessions to downsize.

As with the trade-down strategy described previously, the difference between the sales price of your current home and the cost of a house in a less expensive area can be invested to produce income (see [Table 11](#) and [Worksheet 7](#)). Ongoing state income taxes and property taxes may also be lower. A major trade-off, however, may be less proximity to family, friends, and community. Many families find it difficult to pull up roots and start over in a new location. Not surprisingly, fewer than 5% of Americans age 65 or older have moved in recent years, according to the U.S. Census Bureau.

If you are considering an out-of-state move to reduce living costs, make plans before you retire. Visit potential retirement spots on vacations and subscribe to their newspapers. Get a feel for the community you are considering. Inquire about medical facilities, cultural and entertainment attractions, weather, employment opportunities, and other issues of concern.

Consider renting in a new area, instead of purchasing a home right away, in case you change your mind or find a better place to live. Also, factor in the cost of travel expenses to visit family and friends and the potential need for paid caregivers as you age, if a family support network won't be nearby.

### Case Study

George Omos, 64, is a widower. He recently retired from a sales position in New York City and is selling his \$350,000 home in New Jersey. He hates the winter snow and is looking forward to warm weather year-round. Omos is moving to a \$170,000 townhouse in a retirement community near Tampa, Fla. The townhouse is close to where his sister and 92-year-old mother currently reside. He plans to work 15 hours a week in a side business and get involved in activities at the community clubhouse. After moving and sales expenses, Omos expects to clear \$150,000, which he will invest in equal amounts in a stock index fund and a bond index fund. He expects his investments to average an 8% annual return, which will produce about \$12,000 of annual income to supplement his Social Security and company pension.

### Worksheet 8: Retirement Relocation Analysis

#### Resources

- Visit “The Salary Calculator” at [www.homefair.com/homefair/calc/salcalc.html?type=to](http://www.homefair.com/homefair/calc/salcalc.html?type=to) to compare living costs between different locations. The calculator will tell you how much income you'll need in a new location to match the lifestyle possible in your present location.
- *The Late-Start Investor* by John F. Wasik (1998, Owl Books). Chapter Three provides an overview of the impact of lifestyle decisions on the amount of income that a retiree needs.

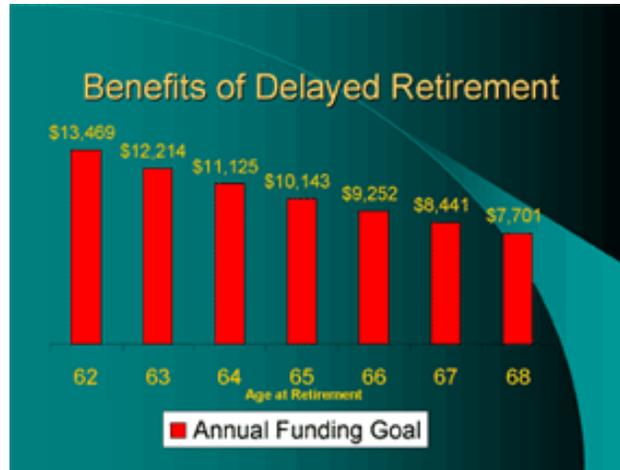
## Delay Retirement

Continuing to work—even for just a few more years—provides additional income to invest in tax-deferred plans. Working may also postpone asset withdrawals, allowing funds to grow with compound interest. In addition, workers participating in defined benefit pension plans (pensions that pay benefits based on income and years of service) may be able to increase their benefits by remaining on the job longer. Social Security payments may also increase with additional years of earnings.

The longer you remain in the workforce, the less you will need to save for retirement. Letting existing investments grow for a few extra years can make a tremendous difference in the amount of annual savings required (as shown in Figure 1). The analysis assumes a current age of 45, withdrawals of \$20,000 per year from savings during retirement, 3.5% inflation, an 8.5% average annual return, and average life expectancy based on U.S. Census Bureau data.



**Figure 1: Annual Savings Required to Provide \$20,000 of Retirement Income Starting at Ages 62 to 68**



For example, if you plan to retire at age 62, you must begin saving \$13,469 per year at age 45 to be able to afford \$20,000 annual withdrawals after retirement. If you plan to wait until age 68 to retire, you would only have to save \$7,701 per year to meet your retirement withdrawal goal of \$20,000 annually.

Note the difference in savings required annually for retirement at age 62 versus at age 68. Delaying retirement for six years means a difference of saving \$5,768 per year (\$13,469 minus \$7,701). Of course, the trade-off for delaying retirement is less control over the use of your time and the daily hassles of working. Some employers allow workers to phase in their retirement—working three days per week instead of five, for example—to provide flexibility for both parties and to make use of experienced employees' knowledge and skills. If you're considering this, check whether pension benefits will be negatively affected.

Delaying retirement is especially attractive during extended market downturns such as the early 2000s. If you're still working, you don't need to withdraw money from assets when prices are depressed. A good way for retirees to avoid this predicament is to keep at least five years worth of annual cash withdrawals in liquid savings products (such as a money market mutual fund) to ride out market volatility.

### Case Study

Fred Wescott, 48, is single and getting a late start saving for retirement. He planned to retire at 56 until he did a retirement savings calculation and realized he could not afford to replace even 60% of his preretirement earnings. Fred checked several retirement calculators and learned he could afford to retire comfortably if he waited until age 64. In his analyses, he assumed higher pension and Social Security benefits for working eight additional years. By remaining in the workforce longer and receiving employer benefits, Fred also will not have to purchase an individual health insurance policy to carry him through until he is eligible for Medicare.

### Worksheet 9: Retirement: Early vs. Later?

### Resources

- Check the online *Retirement Readiness Quiz* to measure how well you are preparing for retirement. Users answer a series of 12 questions and receive a score ranging from 0 to 25, with a score of 25 indicating the best job of preparation. The Web site address is [www.asec.org/rrr.htm](http://www.asec.org/rrr.htm).
- Check the "Social Security Benefits Planner" and "Retirement Age" calculators on the *Planning For A Secure Retirement* Web site at [www.ces.purdue.edu/retirement/Module3/module3.html](http://www.ces.purdue.edu/retirement/Module3/module3.html). The calculators provide estimates of future Social Security benefits and show what happens to Social Security benefits if you retire early or delay retirement.

## Work After Retirement

An additional catch-up strategy is to semiretire—continuing to work two or three days per week or starting a home-based business. In addition to providing income, work after retirement can provide a sense of fulfillment, social contact, and a daily routine.

The major financial benefit of semiretirement is that it reduces the amount of money you need to withdraw from investments to supplement Social Security and/or a pension. This stretches your retirement assets, a tremendous advantage for late savers. Two possible disadvantages are Social Security earnings limits for beneficiaries ages 62 to 64 and taxation of Social Security benefits at certain levels of household income.

Assume someone is 65 and about to retire and start collecting Social Security. This person has saved \$100,000, needs \$24,000 a year to live on (80% of a \$30,000 preretirement income), and will receive \$12,000 from a small pension and Social Security. This means the retiree will need \$12,000 from retirement savings each year.

One option is to withdraw the entire amount (that is, \$12,000 annually) for as long as it lasts. A much safer option is to withdraw, say, a third (\$4,000) of this amount and make up the remaining \$8,000 from self-employment. A \$4,000 withdrawal, in this example, represents 4% of the \$100,000 nest egg. If the semiretired worker earns a higher rate of return than 4%, the account balance will continue to grow and provide a cushion against inflation.

If \$12,000 withdrawals are made, however, a nonworking retiree will have less than \$20,000 by age 75. He or she would be in great danger of outliving investments and having to live a drastically reduced lifestyle. A number of recent studies, using both historical and hypothetical investment returns, suggest that retirees should not withdraw more than 4% to 4.5% of their portfolio annually to avoid prematurely depleting their assets. One study found that, assuming a portfolio with 50% or more in stock and a withdrawal rate of 4%, there has never been a 25-year period since 1925 when an investor would have run out of money.

Work is an important part of many baby boomers' lives and many look at retirement as a way to improve work-life balance, but not to discontinue working entirely. Post-retirement work options include working for your current employer at a reduced schedule (phased retirement), freelancing for a current employer, working at a "bridge job" or business before retirement and continuing to work at it after retirement, working for a new employer, working for a temporary employment agency, working for yourself, or starting a small business.

### [Worksheet 10: Post-Retirement Employment Assessment](#)

#### Resources

- *The Retirement Catch-Up Guide* by Ellen Hoffman (2000, Newmarket Press). Chapter 3 provides information about starting a new business and phasing in retirement.
- Get out a calculator and calculate how much money you *don't* need to save by working part-time during retirement. For example, assuming a 7% average annual return, \$14,000 of earnings from paid employment is equivalent to not having to withdraw interest earned on \$200,000 of savings ( $\$200,000 \times .07 = \$14,000$ ).

## Reverse Mortgages and Sale-Leaseback Arrangements

Reverse mortgages and sale-leaseback arrangements are catch-up strategies for retirees who are "house rich and cash poor." They can help late savers convert their home equity into spendable cash without having to move.

#### Reverse Mortgages

Reverse mortgages are available to homeowners who are age 62 and older and own their homes free and clear. Borrowers receive a lump sum, monthly payments, or a line of credit based on three factors: age of the younger homeowner, amount of home equity, and current interest rates. Reverse mortgages are repaid from the borrower's equity after a fixed period or when they move out of the home, sell it, or die. Interest accrues on the loan until it is repaid. If the house is sold for less than the loan amount, the lender absorbs the loss. The downside of

reverse mortgages is that they are complicated and interest rates and fees are much higher than for regular mortgages (see Table 12).

**Table 12**  
**Advantages and Disadvantages of Reverse Mortgages**

<b>Advantages of Reverse Mortgages</b>	<b>Disadvantages of Reverse Mortgages</b>
<ul style="list-style-type: none"> <li>Borrowers can remain in their home for as long as desired.</li> </ul>	<ul style="list-style-type: none"> <li>Loan origination fees and closing costs are often several thousand dollars up front.</li> </ul>
<ul style="list-style-type: none"> <li>Payments are tax free. Social Security and Medicare are not affected and payments do not affect SSI or Medicaid as long as money from the loan is spent within the month it is received.</li> </ul>	<ul style="list-style-type: none"> <li>On an annual basis, loans are very expensive if the homeowners die or move out of their house soon after taking out the loan.</li> </ul>
<ul style="list-style-type: none"> <li>No regular income is necessary to qualify for the loan, only proof of property ownership and home equity</li> </ul>	<ul style="list-style-type: none"> <li>Cash payments from a reverse mortgage are usually lower than income from an annuity you might purchase if you sold your home and invested the proceeds.</li> </ul>
<ul style="list-style-type: none"> <li>Money from a reverse mortgage can be spent for any purpose, such as medical care, property taxes, and home improvements. There is generally a choice of payment options (for example, lump sum, fixed monthly amount, or line of credit).</li> </ul>	<ul style="list-style-type: none"> <li>A reduced amount of home equity is available to distribute to one's heirs as an inheritance.</li> </ul>

### **Sale-Leaseback Arrangements**

With sale-leaseback arrangements, homeowners of any age sell their home, typically to a close family member, and then lease it back. The proceeds from the sale of the home are available to invest without the necessity of moving or paying real estate commissions. The new owner receives the tax advantages associated with a rental property and the former homeowner, turned renter, gets to stay in the home they love, but have difficulty affording.

Because sale-leaseback involves a contract between two parties, consult an attorney to draw up the paperwork. This is especially important when the parties are related—so everyone is clear as to what is expected and there is a basis for legal recourse, if necessary. Also, be sure to solicit solid tax advice because the IRS examines these transactions closely and expects to see market-based interest rates and rental payments.

### **Case Study**

Nelson and Lucy Chang, 66 and 70, are considering a reverse mortgage to provide additional monthly income to travel and maintain their \$150,000 home. They are not concerned about inheritance issues because their two children, 38 and 44, have good jobs and are financially self-sufficient. They visited the Web site [www.reverse.org](http://www.reverse.org), run by the National Center for Home Equity Conversion, and learned they could get a credit line of almost \$70,000 (or monthly payments of \$450) for as long as they live in their home. To decide if a reverse mortgage is right for them, they plan to compare at least three different lenders and they have scheduled a free counseling session with a counseling agency approved by the Department of Housing and Urban Development (HUD).

## **Worksheet 11: Reverse Mortgage Comparison Worksheet**

### **Resources**

- The National Center for Home Equity Conversion Web site ([www.reverse.org](http://www.reverse.org)) has a calculator that estimates reverse mortgage loan payments with different types of reverse mortgage programs. The calculator also helps homeowners compare reverse mortgages offered by various lenders.
- For a free list of reverse mortgage lenders and certified loan counseling agencies, contact HUD at 1-888-466-3487. For information about lenders that offer Fannie Mae *Home Keeper* reverse mortgages, call 1-800-732-6643.

## **Make Tax-Efficient Asset Withdrawals**

As with taking steps to maximize tax breaks on money that goes into investments intended for retirement, retirees should focus on withdrawing money from those assets in a tax-efficient manner. This simply makes your money last longer.

- Generally, this means first tapping taxable accounts—such as investments other than IRAs and tax-deferred employer plans—since they were made with after-tax dollars and taxes have already been paid each year on investment earnings.
- Another good initial source of money is tax-free assets, such as municipal bonds or bond funds, on which no tax is due.
- If possible, late savers should wait until age 70-1/2 to tap their tax-deferred accounts. This is the age when minimum withdrawals must be made from most retirement accounts (the exception is Roth IRAs, on which withdrawals are tax free if certain qualifications are met).
- If tax-deferred money is needed before age 70-1/2, first tap tax-deferred accounts that were made with after-tax dollar contributions, such as fixed or variable annuities and non-deductible Traditional IRAs.
- Withdrawals from Roth IRAs should be made last because they have no minimum withdrawal age and earnings grow tax free. If Roth IRA money is not spent, it can be bequeathed to your heirs.

A study by the investment firm T. Rowe Price compared three retirement withdrawal scenarios: (1) withdrawals from an IRA first, (2) withdrawals from a taxable account first, and (3) conversion of a traditional IRA to a Roth IRA prior to making withdrawals (note that this requires payment of income taxes for the year of the conversion in exchange for tax-free Roth IRA withdrawals at a later date). The analysis assumed a 62-year old investor with \$600,000 in savings divided equally between a traditional IRA and a taxable account, both earning 9%.

Table 13, below, shows how long assets would last with each withdrawal method.

**Table 13**  
**Impact of Withdrawal Method Upon Length of Retirement Income**

Method	Description	Retirement Asset Withdrawal Period
Tax-inefficient method	Traditional IRA liquidated first	20 years
Tax-efficient method	Taxable account liquidated first	Almost 25 years
Optimal method	Convert traditional IRA to Roth IRA (if eligible) and liquidate taxable account first	More than 26 years

**Source:** Stretching Your Retirement Income With a Tax-Efficient Withdrawal Strategy (1999, Winter). T. Rowe Price Report, Issue #62.

**[Worksheet 12: Planning for Retirement Asset Withdrawals](#)**





# ► *Part Four*

## Special Retirement Catch-Up Considerations

*Poor or Uncertain Health Prognosis*  
*Involuntary Retirement*

*Inheritances*  
*Long-Term Care Insurance*

*Part One*  
CATCHING UP

*Part Two*  
INCREASING SAVINGS

*Part Three*  
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Not all retirement decisions are under a person's total control. In real life, plans are often made in response to—or in preparation for—life events. This section describes four special retirement planning considerations and their impact on late savers:

- Poor or uncertain health diagnosis
- Involuntary retirement due to unemployment
- Inheritances as both a recipient and a donor
- Long-term care

### Poor or Uncertain Health Prognosis

When you're in good health, it is reasonable to expect that you'll live an average, or even above average, life expectancy and then plan accordingly. However, when you're 45 or 50 and diagnosed with a life-threatening disease, retirement plans can immediately change. Some people move up their planned retirement date to retire while they still can. Others reduce their work hours and, hence, their income and retirement savings, because they want to or they have to (due to fatigue or the time involved in caring for their illness). It may be appropriate for some people, who know they will not live long enough to enjoy their retirement assets, to discontinue contributions to tax-deferred plans and spend the money, instead, on medical expenses or memorable experiences with their families. In any case, it's necessary to revise your retirement savings analysis based on the specifics of the health prognosis.



A poor or uncertain health prognosis also dictates immediate attention to estate plans, including the drafting (or revision) of a will, living will, and power of attorney. In addition, it is very important to plan for the ill person's spouse and/or other dependents through the use of Social Security survivor's benefits, life insurance, pension plan distributions, asset transfers, retirement plan withdrawals, and/or trust arrangements. Check beneficiary designations on insurance policies and tax-deferred plans to ensure they are current and don't conflict with provisions in the will. Contingent beneficiaries should be named to provide estate planning flexibility.

## Involuntary Retirement

In addition to health problems, a forced “early out” incentive program or a layoff can lead to an involuntary retirement. Involuntary retirees face two main issues—being psychologically and financially unprepared for retirement. This is especially true for late savers who were counting on earnings during their 50s and 60s to help make up for lost time. Even with severance pay or enhanced pension benefits, retirees may not have enough money to maintain their lifestyles. A sense of loss, similar to feelings after the death of a loved one, is also common following unemployment.

Workers faced with involuntary retirement need to honestly assess their financial resources and marketable job skills. Perhaps they can start their retirement “bridge job” sooner than expected or convert an existing sideline business, or a spouse’s sideline business, into a full-time enterprise. Maybe some job retraining is in order, as well as a resume makeover that emphasizes transferable knowledge and skills rather than chronological work experiences. Free or low-cost career counseling is often available at a local community college or women’s center. If you face involuntary retirement, be sure to maintain and expand contacts with colleagues in trade or professional organizations. Today, as in the past, most good job leads continue to come from word of mouth and personal networking.

Sometimes, you can negotiate additional benefits from your employer, such as increased severance or outplacement support. Another key consideration for involuntary retirement is maintaining health-care coverage. Health benefits may be available through the federal COBRA law for up to 18 months (this law applies to work sites with more than 20 workers) or an unemployed person may have access to a spouse’s health insurance plan.

To make ends meet, unemployed people may need to consider using one of the catch-up strategies described in [Part Two](#) and [Part Three](#)—such as moving to a smaller house—sooner than planned.

## Inheritances

Two aspects of inheritances need consideration in catch-up retirement planning: receiving an inheritance and leaving a bequest to one’s heirs.

### Receiving an Inheritance

Some people view the likelihood of receiving an inheritance as an excuse not to save for retirement. This is a mistake. There are simply too many unknown factors, such as an anticipated donor’s health and longevity, to count on inheritances as a source of retirement income. Unless a donor is currently divesting his or her assets or has made outright gifts—which the recipient has subsequently invested—inheritances should not be included in a retirement savings analysis.



One way to increase the odds of receiving an inheritance is to encourage the donor, typically a parent, to purchase [long-term care insurance](#). This way, the policy benefit, instead of the donor’s assets, can be used to pay home health-care and/or nursing home expenses, thereby preserving assets for distribution to heirs. In some cases, it may make sense for adult children to pay their parents’ long-term care policy premiums to preserve invested assets (if possible, several siblings can share this expense).

### Leaving an Inheritance

During retirement planning, you may need to adjust your financial plans to include leaving an inheritance to your heirs. This is because most simple retirement planning tools, such as the Ballpark Estimate, assume that you will draw down assets to zero during retirement. Donors who want to leave heirs “whatever is left, if anything” can use traditional planning tools. If, however, you want to leave your heirs “specific bequests, no matter what,” such as \$25,000 to three grandchildren, you can either exclude the value of assets that will be passed on or plan to save more than the amount indicated by a retirement savings calculation.

For grandparents who want to fund their grandchildren’s education expenses, an opportunity exists with state-run 529 college savings plans. Donors can put up to five years worth of gift-tax excluded cash (in 2006, \$60,000 per individual or \$120,000 per couple, based on an annual gift tax exclusion per person of \$12,000) per beneficiary into a 529 plan. Two major advantages of doing this are that donors get assets out of their estate to reduce potential taxes and assets start growing immediately through compound interest instead of waiting to be deposited over time. Note that 529 college savings plans are different from prepaid tuition plans.

### Long-Term Care Insurance

With longer life expectancies reported for both men and women, the cost of long-term care is an increasing financial risk that retirees, particularly catch-up savers with limited financial assets, need to consider. The term “long-term care” refers to a wide array of services ranging from limited assistance with daily activities in your own home to admission to a nursing home for intensive medical care and support.

To determine if long-term care insurance is appropriate for you, a good rule of thumb to follow is that premiums should not be more than 10% of your annual income (for example, \$3,500 premium with a \$35,000 income). The United Seniors Health Cooperative recommends that you have more than \$75,000 in assets per person in your household, excluding your residence, and an annual income of \$30,000 or more per person to justify the expense of long-term care insurance. You should be able to afford the current premium—as well as a potential 20% to 30% increase in premium rates—without significant lifestyle changes.

The best time to purchase a long-term care policy is generally around age 60, plus or minus about five years. If you wait too long, premiums increase significantly and/or you could become uninsurable through some type of medical diagnosis. You can actually purchase a policy as early as your 40s, but this is unlikely to be a priority for catch-up savers because premiums are competing for limited dollars with college tuition and retirement savings. In addition, you could be paying premiums for a long time before coverage is actually needed.

A few things to consider when looking for a long-term care policy: be sure you understand what is covered, look into a policy with a compound inflation rider, and choose an appropriate elimination period.

### Resources

- *A Shopper’s Guide to Long-Term Care Insurance* is a 45-page booklet available from the National Association of Insurance Commissioners (call 1-816-8300).
- Critical Conversations About Financing Long-Term Care program materials are available on the USDA Financial Security in Later Life Web site: [www.reeusda.gov/ecs/fsll/longtermcare.ppt](http://www.reeusda.gov/ecs/fsll/longtermcare.ppt).





# ► Part Five Retirement Catch-Up Resources

Action Steps

Resources for Late Savers

Retirement planning is an inexact process that involves making the best estimate possible of future needs and taking actions to close the gap between desired income and anticipated resources. As discussed, you can combine various catch-up strategies for greater impact. Use Worksheet 13, below, to note the catch-up strategies you plan to use and the specifics of each action.



## [Worksheet 13: Retirement Catch-Up Planning Worksheet](#)

A few precautions for late savers:

- Don't follow simplistic financial guidelines blindly. For example, a commonly heard suggestion is to put a percentage equal to 100% minus your age in stocks (for example,  $100\% - 45 = 55\%$ ). This may work for some people but may be too conservative for others who are trying to make up for lost time.
- Don't necessarily use your employer's retirement plan choices as an asset allocation formula. A recent study by investment firm TIAA-CREF looked at investors who divided their money equally across the number of funds in their employers' plans. An airline pilot's retirement plan with five stock funds and one bond fund was compared with a university plan with one stock fund and four bond funds. Not surprisingly, the pilots allocated 75% of contributions to stocks versus 34% for the university employees. By contrast, the national average for stock contributions to an employer plan was 57%.

## Action Steps

Now that you've identified the general retirement catch-up strategies you'd like to use, review the following list of action steps to identify the specific tasks necessary to get your plans underway. Put a check before the actions you plan to take to start making up for lost time. List any additional ideas in the blank spaces at the bottom of the worksheet.

## [Worksheet 14: Retirement Catch-Up Action Steps](#)

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CATCHING UP

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STRETCHING INCOME

Part Four  
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REFERENCES & WORKSHEETS

## Resources for Late Savers

### In Books

- *Ernst & Young's Retirement Planning Guide* (2001, John Wiley & Sons)
- *Get a Life: You Don't Need a Million to Retire Well* by Ralph Warner (1996, Nolo Press)
- *Investing On A Shoestring* by Barbara O'Neill (1999, Dearborn Financial Publishing, Inc.)
- *J.K. Lasser's Winning With Your 403(b)* by Pam Horowitz (2001, John Wiley & Sons)
- *Slash Your Debt: Save Money and Secure Your Future* by Gerri Detweiler, Marc Eisenson, & Nancy Castleman (1999, Financial Literacy Center)
- *The Baby Boomer Financial Wake-Up Call* by Kay R. Shirley (1999, Dearborn Financial Publishing, Inc.)
- *The Late-Start Investor* by John F. Wasik (1998, Owl Books)
- *The New Retirementality* by Mitch Anthony (2001, Dearborn Trade)
- *The Prosperous Retirement* by Michael K. Stein (1998, EMSTCO Press)
- *The Retirement Catch-Up Guide* by Ellen Hoffman (2000, Newmarket Press)



### Web Sites

- AARP: [www.aarp.org](http://www.aarp.org) and [www.aarp.org/revmort](http://www.aarp.org/revmort) (reverse mortgages)
- American Savings Education Council (ASEC) and *Ballpark Estimate*: [www.asec.org](http://www.asec.org)
- Certified Financial Planner Board of Standards: [www.cfp-board.org](http://www.cfp-board.org)
- *Choose To Save*: [www.choosetosave.org](http://www.choosetosave.org)
- Credit Union National Association: [www.cuna.org](http://www.cuna.org)
- Employee Benefits Security Administration, U.S. Department of Labor: [www.dol.gov/ebsa](http://www.dol.gov/ebsa)
- Federal Citizen Information Center: [www.pueblo.gsa.gov](http://www.pueblo.gsa.gov)
- FinanCenter: [www.financenter.com](http://www.financenter.com)
- Financial Planning Association: [www.fpanet.org](http://www.fpanet.org)
- Financial Security in Later Life: [www.reeusda.gov/financialsecurity](http://www.reeusda.gov/financialsecurity)
- 403(b) Wise: [www.403bwise.com](http://www.403bwise.com)
- *Investing For Your Future* basic investing home study course: [www.investing.rutgers.edu](http://www.investing.rutgers.edu)
- Investorguide: [www.investorguide.com/university.html](http://www.investorguide.com/university.html)
- Iowa State University Cooperative Extension Retire: Secure Your Dreams: [www.extension.iastate.edu/financial/retire.html](http://www.extension.iastate.edu/financial/retire.html)
- mPowerCafe': [www.mPowerCafe.com](http://www.mPowerCafe.com)
- National Association of Personal Financial Advisors: [www.napfa.org](http://www.napfa.org)
- National Endowment for Financial Education: [www.nefe.org](http://www.nefe.org)
- Profit Sharing 401(k) Council of America and *Annual Retirement Check-Up Worksheet*: [www.pasca.org](http://www.pasca.org)
- Purdue University Cooperative Extension *Planning For A Secure Retirement* Web site: [www.ces.purdue.edu/retirement](http://www.ces.purdue.edu/retirement)

- Quicken retirement planning calculator: [www.quicken.com/retirement/planner](http://www.quicken.com/retirement/planner)
- *Retirement Personality Profiler* (ASEC): [www.asec.org/tools/profiler.htm](http://www.asec.org/tools/profiler.htm)
- *Retirement Readiness Quiz* (ASEC): [www.asec.org/rrr.htm](http://www.asec.org/rrr.htm)
- Roth IRA: [www.rothira.com](http://www.rothira.com)
- Smart About Money: [www.smartaboutmoney.org](http://www.smartaboutmoney.org)
- Social Security Administration: [www.socialsecurity.gov](http://www.socialsecurity.gov) and [www.socialsecurity.gov/retire2/calculator.htm](http://www.socialsecurity.gov/retire2/calculator.htm)
- Third Age late savers: [www.thirdage.com/money/retirement/latestarter/](http://www.thirdage.com/money/retirement/latestarter/)
- U.S. Securities and Exchange Commission: [www.sec.gov](http://www.sec.gov)
- *You First* (series of five handbooks that address retirement planning concerns of baby boomers): [www.nefe.org/youfirst](http://www.nefe.org/youfirst)





# ▶ Part Six

## Retirement Catch-Up Resources

*Summary*

*References*

*Worksheets*

*Part One*  
CATCHING UP

*Part Two*  
INCREASING SAVINGS

*Part Three*  
STRETCHING INCOME

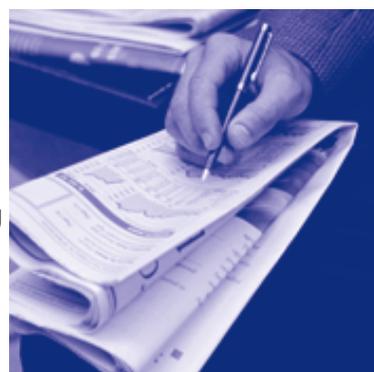
*Part Four*  
CATCH-UP CONSIDERATIONS

*Part Five*  
CATCH-UP RESOURCES

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### Summary

It is never too late to begin saving for retirement. Any additional savings you can set aside are better than nothing. To illustrate this point, compare three coworkers: Matt, Marcus, and Maria, who save nothing, \$100 a month, and \$150 a month, respectively, in a payroll savings plan. Assuming a 6% return and ignoring taxes and employer matching for simplicity, at the end of 20 years, Matt will still have nothing; Marcus, \$46,204; and Maria, \$69,306.



A final word of caution: don't invest in high-risk investments or, worse yet, investment scams, in a frantic effort to get rich quickly. Examples include speculative stocks, viatical settlement deals, and Internet "pump and dump" scams. Remember, if an investment sounds too good to be true, it probably is. Be skeptical of "guaranteed" investment returns or those that are well above historical averages.

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## Worksheets

[Worksheet 1: Savings Resulting from Additional Tax-Deferred Contributions](#)

[Worksheet 2: Finding Money to Invest for Retirement](#)

[Worksheet 3: Supplemental Income Planning Worksheet](#)

[Worksheet 4: Investment Risk and Planning Analysis](#)

[Worksheet 5: Tax-Advantaged Investment Analysis](#)

[Worksheet 6: Personal Dollar-Cost Averaging Tracking Form](#)

[Worksheet 7: Proceeds from the Sale of My House](#)

[Worksheet 8: Retirement Relocation Analysis](#)

[Worksheet 9: Retirement: Early vs. Later?](#)

[Worksheet 10: Post-Retirement Employment Assessment](#)

[Worksheet 11: Reverse Mortgage Comparison Worksheet](#)

[Worksheet 12: Planning for Retirement Asset Withdrawals](#)

[Worksheet 13: Retirement Catch-Up Planning Worksheet](#)

[Worksheet 14: Retirement Catch-Up Action Steps](#)



# Worksheet 1: Savings Resulting from Additional Tax-Deferred Contributions

---

Complete the worksheet below by referring to Table 4. Find the dollar figure that best matches the amount of savings you could have at age 65 by contributing an additional 2% of your pay (or 1% of pay with a 1% match) to an employer tax-deferred plan.

Figures in Table 4 are based on your age and annual salary. For example, if your annual salary is \$30,000 and you are age 50, you could have \$15,077 at age 65 by saving an additional 2% of your pay.

If your earnings exceed the amounts in Table 4, combine two columns to get the proper amount (example: \$30,000 + \$40,000 = \$70,000). You can also double the 2% figure to 4% of earnings if you plan to save 2% of pay yourself and will receive a corresponding 2% match. Calculate the potential savings for all household earners.

**My Potential Savings at Age 65**

Amount of potential extra savings by saving 2% of pay \$ \_\_\_\_\_

**My Spouse's/Partner's Potential Savings at Age 65**

Amount of potential extra savings by saving 2% of pay or 1% of pay with a 1% match (from Table 4) \$ \_\_\_\_\_

**Total Savings Potentially Available at Age 65**

Add your potential savings to that of your spouse or partner \$ \_\_\_\_\_



**Worksheet 3: Supplemental Income Planning Worksheet**

---

**Job Skills that Could Provide Moonlighting Income:**

- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_

**Potential Clients or Employers:**

- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_

**Estimated Annual Earnings: \$** \_\_\_\_\_

## Worksheet 4: Investment Risk and Planning Analysis

---

Use this worksheet to summarize key pieces of information about your risk tolerance level, investment portfolio, and expectations for the growth of your savings.

- What is the amount of your investment portfolio you could stand to lose in pursuit of the higher potential capital gains available over time through stocks?

**Example**

As a percentage	_____ %	10%
As a specific dollar amount	\$ _____	\$5,000

- How much do you need to earn on your investments to reach your retirement goals?  
(Base your response on answers from one or more savings worksheets or online calculators.)

_____ % after taxes	6%
------------------------	----

- How far off is your retirement date?

_____ years	16 years
-------------	----------

- How long do you expect to live in retirement?

_____ years	30 years
-------------	----------

- What type of investments currently make up your retirement investment portfolio?

Percentage in stocks	_____ %	50%
----------------------	---------	-----

Percentage in bonds	_____ %	30%
---------------------	---------	-----

Percentage in cash assets (such as CDs)	_____ %	20%
---	---------	-----

- Current amount saved for retirement (dollar amount):

\$ _____	\$10,000
----------	----------

- Expected future rate of return on this money:

_____ %	7%
---------	----

- Number of years for money to double (use the Rule of 72):

_____ years	10 ( 72 ÷ 7)
-------------	-----------------

- Approximate number of times that money will double before retirement:

_____	1.6 ( 16 ÷ 10)
-------	-------------------

## Worksheet 5: Tax-Advantaged Investment Analysis

---

Check the boxes below to indicate whether you are taking advantage of available tax breaks that can decrease income taxes and increase retirement savings. The more strategies you check off, the more savvy you are as a tax-advantaged investor.

<b>Tax-Advantaged Investment Strategy Currently</b>	<b>Do</b>	<b>Currently Do Not Do</b>	<b>Not Applicable</b>
1. Participate in a tax-deferred employer retirement savings plan, such as a 401(k) plan			
2. Contribute the percentage of pay, such as 6%, required to earn the maximum match from your employer			
3. Contribute the maximum amount of savings allowed in your employer plan			
4. Take advantage of additional employer savings plan catch-up contributions for workers age 50 and older			
5. Fully fund an IRA for yourself with earned income			
6. Fully fund an IRA for your spouse (whether or not spouse is employed)			
7. Take advantage of IRA catch-up contributions for workers age 50 and older			
8. Make IRA contributions early in the tax year			
9. Invest in a tax-deferred plan for self-employed persons, such as SEP or Keogh			
10. Hold investments for more than a year to take advantage of long-term capital gains tax rates			
11. Invest in tax-deferred annuities with after-tax dollars after funding employer plan and IRAs			
12. Increase retirement plan savings as income increases and/or household expenses decrease			

# Worksheet 6: Personal Dollar-Cost Averaging Tracking Form

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Use this worksheet to track the average cost per share of deposits to a tax-deferred employer plan or a stock or mutual fund automatic investment plan.

Time Period	Regular Investment	Share Price	Shares Acquired
	\$	\$	
Total	\$		

**Worksheet 7: Proceeds from the Sale of My House**

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Use this worksheet to compute the estimated proceeds from the sale of your house, taking into account the costs of selling it and moving. To establish a ballpark sales price, use an appraisal, a comparative market analysis provided by a real estate agent, or real estate advertisements.

Estimated Sales Price		1. \$ _____
Selling Expenses	\$ _____	
Realtor's commission	\$ _____	
Fix-up costs associated with sale	\$ _____	
Seller's portion of closing costs, if any	\$ _____	
Amount required to pay off mortgage(s)	\$ _____	
Real estate transfer tax to state	\$ _____	
Other sales costs	\$ _____	
Total of Selling Expenses		2. \$ _____
Cost of New Home		3. \$ _____
Moving Expenses		4. \$ _____
Estimated Proceeds from Sale (line 1 minus lines 2, 3, and 4)		5. \$ _____

# Worksheet 8: Retirement Relocation Analysis

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Use this worksheet to compare the costs of living in your current location to other areas.

<b>Factors to Consider</b>	<b>Current Location</b>	<b>Location #1</b>	<b>Location #2</b>
Cost/value of home			
Annual property tax bill			
Club fees or dues			
Culture and entertainment			
Maintenance costs (estimated)			
Opportunities for social contact			
Proximity to family and friends			
Quality of medical facilities			
State/local income tax rates			
Utility costs			
Weather			
Other, describe			

# Worksheet 9: Retirement: Early vs. Later?

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Using the Ballpark Estimator at [www.asec.org](http://www.asec.org) or [www.choosetosave.org](http://www.choosetosave.org), compare the amount of savings you will require at five different retirement ages, sources of income that can be expected, and other relevant factors.

<b>Retirement Age</b>	<b>Amount of Annual Savings Required</b>	<b>Estimated Employer Pension Benefit</b>	<b>Estimated Social Security Benefit</b>	<b>Health Insurance Benefit, if any</b>	<b>Other Factors (e.g., health)</b>

## Worksheet 10: Post-Retirement Employment Assessment

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- What type of work would you like to do after retirement?
- List three marketable job skills you currently possess:
  - 1.
  - 2.
  - 3.
- How many hours do you want to work each week?
- How much income do you expect to earn?
- Does your future job require any specialized training, credentials, or experience?
- Is there anyone doing this type of work that you can network with? If so, who?

**Worksheet 11: Reverse Mortgage Comparison Worksheet**

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<b>Loan Features</b>	<b>Lender #1</b>	<b>Lender #2</b>	<b>Lender #3</b>
Lump sum option amount			
Line of credit option amount			
Monthly payment option amount			
Annual percentage rate (APR)			
Application fee			
Closing costs			
Other charges			



**Worksheet 13: Retirement Catch-Up Planning Worksheet**

<b>Retirement Catch-Up Strategy</b>	<b>Did or Will Do</b>	<b>Will Not Do</b>	<b>Comments and Planned Actions</b>
1. Increase contributions to tax-deferred employer retirement plan			
2. Accelerate debt repayment and spend less			
3. Moonlight for additional income			
4. Invest “assertively” (more stock in portfolio)			
5. Maximize tax breaks and reduce investment expenses			
6. Diversify and dollar-cost average			
7. Have multiple tax-deferred savings plans			
8. Preserve lump-sum distributions			
9. Downsize to a smaller, less expensive home			
10. Move to a less expensive location			
11. Delay retirement			
12. Work after retirement			
13. Reverse mortgage or sale-leaseback arrangement			
14. Make tax-efficient asset withdrawals			
15. Other			

## Worksheet 14: Retirement Catch-Up Action Steps

Plan To Do	Action Steps
	Calculate retirement savings need with one or more online financial calculators
	Review employer retirement plan investment choices
	Inquire about the amount of employer retirement plan match available, if any
	Review annual Social Security benefit estimate
	Request/review information about employer pension plan benefit
	Attend a retirement planning seminar at work or in the community
	Read prospectus and/or annual report about retirement investment choices
	Sign up for a stock or mutual fund automatic investment plan
	Consult with a professional financial advisor about retirement options
	Consult one or more new retirement planning resources (for example, books, Web sites)
	Write a business plan to develop a sideline or post-retirement business
	Request a comparative market analysis to determine value of home
	Investigate housing options in other areas of the country
	Convert a traditional IRA to a Roth IRA
	Shop for and purchase a long-term care insurance policy