

This book shows you how to make the most of your nest egg during these difficult times. More than that, this book will help you factor in other considerations--for example, your lifestyle, goals, and much more.

Now What? A Guide to Retirement during volatile times

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**Now What?  
A Guide to  
Retirement  
During  
Volatile  
Times<sup>©</sup>**

**By: Ken Mahoney**

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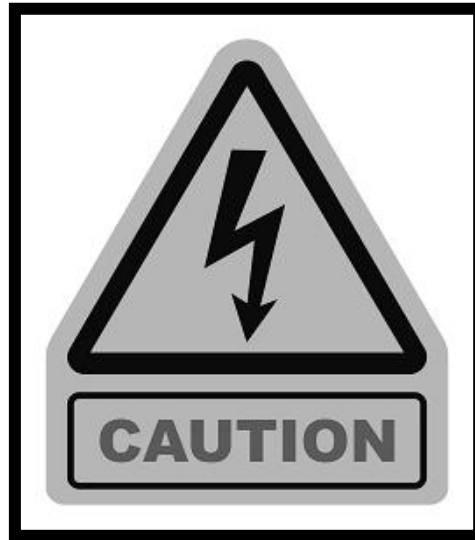
## Chapter 8: Asset Allocation, (Re-) Balancing and You

Because baby boomers are living longer than the generations before them, the United States Labor Department recommends that baby boomers plan for a 30-years worth of income to cover their expenses during retirement. This helps boomers to ensure that they don't run out of money before they die. Your financial affairs are not going to organize and plan themselves, which means you need to be proactive in planning for your retirement.

And getting your financial future in focus **requires** taking steps to understand the state of your finances today and to make a plan for what kind of income and expenses you will have during retirement. Once you have these figures, you will be able to plan out the steps you need to take now in order to get you to where you need to be for retirement. It does not end there either. It is not a plan you create and walk away from for 30 years until you are ready to retire. Your retirement plan requires you to regularly review your financial investments to see how each one is performing and making necessary adjustments as time goes by.

### **Risk**

Risk is something you need to adjust as the years go by. When you are in your 20s, you have forty years or so for your investments to grow before you retire. You have the time to take on more risk when choosing investments than you do in your 40s when you only have 20 years or so until retirement time. Even during your retirement years, your risk level changes, decreasing more and more as you get further and further into your retirement.



### **Asset allocation**

It is also important to diversify your retirement investment portfolio. Diversification helps you to balance your portfolio, so when one investment is not doing well, the other investments that are doing well balance the portfolio out—reducing your losses. Once you have a clear sense of your current asset allocation, it is also important to remember that you have to be flexible—even as the years pass away. Flexibility is important because it will allow you to make clear and educated choices on changes that you need to make in your portfolio to get your investments back on track—helping you to reach your retirement goals.

### **Types of investments**

Everyone is different and investment needs are just as different as people. Luckily, there are many different investment possibilities to choose from; which means, you can look for and invest in investment vehicles that are right for you.

- Passbook Savings Accounts
- Certificates of Deposit (CDs)Real Estate
- Stocks

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- Bonds
- Mutual Funds
- Precious Metals and Commodities
- Foreign currencies
- Annuities

**Investment rule of thumb**

The rule of thumb used to keep financial portfolios balanced is to deduct your current age from 100. The answer you get is the percentage of your portfolio that should be invested in stocks. The remaining percentage should be invested in bonds and cash. So if you are 40 years old now, 60% of your retirement investment portfolio should be invested in a variety of stocks. The remaining 40% of your portfolio should be in bonds and cash.

Why is this, the rule? It goes back to the thought process of asset allocation, which states that as we get older, we should take less risk. Since stocks tend to be volatile, while bonds and cash are more stable, it makes sense that the older we get the more we will reallocate the stock investments in our portfolio into cash and bonds—the safer investments. A stock heavy portfolio can leave you with big losses, which can wreak financial havoc on your retirement when you need to sell or liquidate the stocks for income.

On the flipside, cash and bonds are victims of inflation. These investments usually do not grow at a value that keeps up with or is higher than the inflation rate. For example, cash and bonds may grow at a rate of 2% per year and inflation may increase by 4% per year. In this type of a scenario, your portfolio is not growing enough to cover the costs.

So while you may decrease the risk of capital losses by limiting the percentage of your stock investments as time goes by, you can decrease your buying power as inflation eats away at your cash and bond earnings. This is why it is important to find a balance in the investments in your retirement portfolio.

**Assessing your situation**

Nobody knows you better than you. Think about how you tend to deal with things, what your risk tolerance is, and how you handle making decisions. After you assess yourself in these areas, it helps you to better manage and allocate your assets. You spend all of your life trying to earn as much income as you can and are willing and able to take on risks—changing jobs, higher investment risk, etc. When retirement strikes the role reverses and you have to take on less risk and may not have the opportunity to earn as much income as you did during your working years. This does not mean that now that you are retired you can just sit back with your feet up and let your investment portfolio unwind. Even during your retirement you have to manage your investments—reviewing, re-evaluating, and reallocating when necessary.

Most people know that the trick to making money in the investment arena is to buy low and sell high. So why do “real people” end up buying high and selling low? It’s what is referred to as the “bandwagon” effect. When stocks, bonds, and real estate are increasing in value, the adrenaline flows and everyone, except for maybe Warren Buffet and a few others, wants to jump on the bandwagon and make a killing, so they buy high.

Fortunately or unfortunately, the market is a constantly changing entity, so when the market takes a turn for the worse, investors panic and sell off their investments just as the market is bottoming out. And when the market makes an upward turn, the confidence of investors is restored and they begin investing in the market—buying investments at a higher price. This phenomenon creates a situation where investors pay the most to buy or purchase the investment, and lose the most when they sell.

**Balancing and re-balancing your portfolio**

In its simplest terms, balancing your portfolio means keeping a pre-determined percentage of stocks, bonds, cash and other equities in your retirement account. Rebalancing your portfolio means selling off some assets that have gained value and replacing them by buying some less expensive investments or those that have become less expensive. You may wonder why, if your portfolio is doing great, you would want to rebalance.

*Here's why...*

Let's assume you diversified your \$100,000 portfolio in accordance with the following predetermined balance of stocks, bonds, and cash.

Stocks 50%	\$50,000
Bonds 40%	\$40,000
Cash 10%	<u>\$10,000</u>
<i>Total 100%</i>	<i>\$100,000</i>

Now, let's pretend the market has been very good to you, and your portfolio currently looks like this:

Stocks 60%	\$72,000
Bonds 35%	\$42,000
Cash 5%	<u>\$6,000</u>
Total 100%	\$120,000

You're ecstatic! And you should be – you've made \$20,000!

No doubt, you're very pleased with yourself and are already dreaming of what to do with all that profit. Unfortunately, there are problems with your fantasy of your newfound riches. To begin with, you have not really made a profit because you haven't sold your stock—turning it into money. And your \$20,000 gain has moved you away from your original asset allocation plan, which exposes you to greater financial risk.

If your original decision to balance your portfolio with 50% in stocks was a sound decision, there is good reason to not change it now. Just remembering the dotcom crashes of 2000 will confirm this theory. Before the dotcom market crashed, many investors' portfolios were so highly concentrated with technology stocks that when the technology sector was doing great, these stock portfolios skyrocketed. But when the technology sector tanked, which happened practically overnight, these portfolios went right down the drain with it. Since these portfolios were not diversified or re-allocated as the value of the portfolio increased, the investors did not have any other stocks to fall back on to balance the bad performing stocks with some good performers.

Investopedia.com defines portfolio rebalancing as "the process of realigning the weightings of one's portfolio of assets." In other words, you do something with that \$20,000 so that your portfolio is divided along the same percentages that you planned for when you began building your portfolio.

You can take the money you gained and invest it into bond holdings and cash as you get closer to retirement, so that you get your portfolio allocation plan back to your original percentages. Over time, this strategy can lead to better returns and less risk.

#### **When to rebalance**

The general rule of thumb is that you should rebalance your asset allocation when your assets drift 5% or more away from your original allocation plan. A portfolio that is too heavily weighted in one area can be dangerous because the economy moves in cycles, which means your stock holdings could end up plunging so deeply that moving your portfolio back to its original allotment might take years, or might never happen.

Example: Tim Middleton, in his MSN article *Spring Training for Your Portfolio* in February 2007, compares portfolio rebalancing to bunting in baseball. By re-balancing you may not knock the ball out of the park, but by making small adjustments you'll gradually move your assets toward home plate, and eventually you'll score that big winning run.

*Ken Mahoney*

Re-balancing helps take the emotion out of investing also. Instead of following the herd and selling when others are selling, or buying when everyone else is buying, you can become a contrarian—a maverick investor.

That is, you can zig while the market zags and vice versa. So often, when the market or an industry is doing poorly, there are panic sell offs by those with “weak stomachs.” This is the time when “long-term” investors, like Warren Buffet, step in and buy up the bargains.

While re-balancing is not a guarantee against loss, it:

- Ensures that you’ll be buying low and selling high
- Reduces volatility in your portfolio
- Gives you a sense of consistency
- Offers a process in which emotion and guesswork are eliminated



## Chapter 9: Projections - Income & Spending In Future Years

The best way to plan for the future, especially for your retirement years, is to map out your own financial future. Social Security is, as you know, only one of the ingredients in a balanced retirement portfolio. When projecting into the future, there are some basic questions to ask yourself and answer for your situation. First, you need to ask yourself, “What do I *want*?” Second, you need to ask yourself, “What do I really *need*?” Third, “What can I do now to make my wants and needs happen?” and finally, “How can I make sure that inflation doesn’t deflate my retirement dreams?”

By planning and mapping out your financial future, it helps you to understand what you can do or what you need to do as you reach certain ages—trigger points. These ages are called trigger points because something happens when you reach this age that requires action—re-allocation, a higher monthly contribution or the beginning of your withdrawal period. Therefore, it pays to know what your options are at these key retirement trigger points: Ages 50, 55, 59½, 62, 65, 70½, and beyond.

For example, when you turn the big 5-0, you can contribute more heavily to your retirement account, and at each trigger point that follows, there are other decisions to make. It is important to pay attention to the key distribution years also so that when you plan and project income and expenses, you make sure you cover your needs so that you won’t outlive your money.

### **Trigger points**

In order to enjoy your retirement to its fullest, it is important to have an idea of how much money you need each year to fund your desired lifestyle. To ensure that lifestyle, you need to set aside enough money to supplement your known sources of retirement income—Social Security, pension plan, etc. It is also important to be see how retiring at various ages can affect the decisions you make about investing in your retirement portfolio.

**Age 55**

By age 55, you can choose to retire and generally be able to withdraw money from your 401k, 403b, Keogh, SEP (Simplified Employee Pension), and/or profit-sharing plans, without being subject to the 10% penalty tax for early withdrawals. Talk with a professional tax advisor to see how this relates to your personal financial situation.

IRS requirements have to be met to avoid creating a tax situation, so careful planning on your part is important to avoid creating a taxable event that may incur penalty fees. Also it is important to know that this provision does not apply to traditional Individual Retirement Accounts (IRAs).

**Age 59 1/2**

By the age of 59½, generally you can start withdrawing money from traditional IRAs, SEPs, Keoghs, Roth IRAs, and Savings Incentive Match Plan for Employees (SIMPLE) plans without being subject to the 10% penalty tax.

Note that the 10 percent penalty is increased to 25 percent in the case of certain premature distributions from SIMPLE IRA plans. However, distributions from a Roth IRA may still incur a 10% penalty tax if the Roth IRA isn't at least 5 years old.

**Age 60**

At the age of 60, widows and widowers are eligible to start receiving Social Security benefits.

**Age 62**

Age 62 is the earliest age to start receiving regular Social Security benefits. Some company pension plans allow full retirement at this age to receive full pension benefits.

**Ages 62-64**

The earnings threshold for those who are still working and collecting Social Security benefits at the same time is \$12,260 (as of 2007). This also includes for inflation in future years. There is a \$1 payback for every \$2 you earn above this amount. In addition to this, a portion of benefits may be taxed as income.

**Age 65**

If you are receiving pension plan benefits, by the age of 65 you are eligible for full benefits. Medicare eligibility also kicks in at this age. If you were born in 1937 or earlier, then you are now eligible for full Social Security benefits. If you are still working, you can start to receive your full Social Security benefits, regardless of how much money you are earning.

**Ages 65-67s**

The lower earnings threshold amount noted above still applies for years prior to full retirement age attainment and a second earnings threshold rule applies for the year in which full retirement age is attained. For those still working and receiving Social Security benefits, there is a benefit loss (as of 2007) of \$1 for every \$3 over \$31,080 earned for months prior to attainment. Once full retirement age is attained, the earnings threshold no longer applies. A portion of benefits may be taxed as income.

**Age 70½**

At the age of 70½, you are required to start taking at least the minimum distributions from qualified employer retirement plans and traditional IRAs. Roth IRAs, however, are not subject to the mandatory distribution rules.

As with all tax planning matters, be sure to consult with a qualified tax professional to help ensure your plans are consistent with your goals and objectives.

*Ken Mahoney*

**So how do you know how much to save to cover your future needs?**  
Many financial advisors suggest you need to provide 75% of you current income to cover a 25 to 30 year retirement, assuming you retire at about age 65. The table below will help you estimate the total amount you need to accumulate in order to be able to support your annual income requirements.



**Using the table below:**

1. Select the age and annual household income that best fit your current situation.
2. Now run your fingers along the age row and salary column until your two fingers meet. This is the projected income you may need at retirement.

<b>SALARY</b>				
<b>Age</b>	<b>\$75,000</b>	<b>\$100,000</b>	<b>\$125,000</b>	<b>\$150,000</b>
<b>20</b>	\$5,545,950	\$7,394,600	\$9,243,250	\$11,091,900
<b>25</b>	4,558,366	6,077,822	7,597,277	9,116,733
<b>30</b>	3,746,645	4,995,526	6,244,408	7,493,289
<b>35</b>	3,079,469	4,105,958	5,132,448	6,158,937
<b>40</b>	2,531,099	3,374,798	4,218,498	5,062,197
<b>45</b>	2,080,379	2,773,838	3,467,298	4,160,757
<b>50</b>	1,709,919	2,279,893	2,849,866	3,419,839
<b>55</b>	1,405,429	1,873,905	2,342,382	2,810,858
<b>60</b>	1,155,160	1,540,214	1,925,267	2,310,320

Try not to let this figure scare you. This is the total amount you need to cover a 25 or 30 year period, not just one year. You're also not expected to work for the rest of your life to meet this goal. Remember, you have several different streams of income, depending on your personal situation, to help you attain this number. And with the right planning, you can meet your goal and breathe a sigh of relief.

**Monte Carlo simulation**

Many other financial advisers use an analytical technique known as the Monte Carlo simulation, by which you can reduce uncertainties down the road as you look at possible future outcomes for your investments, including the best and worst case scenarios.

*Ken Mahoney*

If your nest egg, combined with your Social Security or pension checks, isn't going to fund the kind of lifestyle you'd like in retirement, you have choices. You might choose to create a small, part-time business that will help you fill in the gap, perhaps by turning a hobby, passion, skill or interest—into cash.

Another option is to downsize your lifestyle. Learning to live comfortably on less can be rewarding in more ways than one. If you treat it as a challenge, you may tap some creative skills you didn't even know you had. And you'll feel a great deal more freedom as you discover that you *do* have options.

**Retirement Worksheet**

Use this retirement worksheet to estimate how much money you need to be able to live the lifestyle you want to live during your retirement.

1. Estimate your living expenses

\_\_\_\_\_ *(Figure at least 70% of current expenses)*

2. Estimate your retirement income:

a. Social Security

\_\_\_\_\_

b. Pension plan

\_\_\_\_\_

c. 401k

\_\_\_\_\_

d. Other income

\_\_\_\_\_

3. Total estimated income

*(Add lines a, b, c, d)*

\_\_\_\_\_

4. Net

\_\_\_\_\_ *(Subtract line 3 from line 1)*

If this number is positive then you have more income than expenses. If this number is negative then you don't enough income to cover your expenses, which means you have to reevaluate your situation—either finding a way to increase your income or a way to decrease your expenses.

5. Estimate the # of years of your retirement

\_\_\_\_\_ *(Estimated life expectancy of 90 years)*

6. Assume average rate of return from

\_\_\_\_\_  
Your investments  
(7% represents a conservative portfolio)

7. Average rate of inflation

\_\_\_\_\_

8. Net inflation adjusted rate of return

\_\_\_\_\_  
(Subtract line 7 from line 6)

9. Assume return factor

\_\_\_\_\_  
(refer to Table A)

10. Retirement goal at age 65

\_\_\_\_\_  
(Multiply line 9 by line 4)

**Retirement Worksheet**

*This worksheet helps you figure out how much money you need to put aside each year to meet your retirement goals.*

**Example Yourself**

1. Your current account balance

\_\_\_\_\_

2. Assume average rate of return

\_\_\_\_\_  
Prior to retirement.  
(8% to represent diversification of portfolio)

3. Assume average rate of inflation

\_\_\_\_\_

**4. Net inflation adjusted return**

\_\_\_\_\_   
(Subtract line 3 from line 2)

**5. Number of years until retirement**

\_\_\_\_\_

**6. Assume return factor**

\_\_\_\_\_   
(From Table B)

**7. Projected value of current savings**

\_\_\_\_\_   
(Multiply line 1 by line 6)

**8. Retirement Goal**

\_\_\_\_\_   
(Insert line 10 from previous Worksheet)

**9. Net retirement goal**

\_\_\_\_\_   
(Subtract line 7 from line 8)

If this number is positive then your projected investment account value at the time of your retirement is more than your retirement income goal. If this number is negative then you won't have enough saved to cover your retirement goal lifestyle, which means you have to reevaluate your situation—either finding a way to increase the value of your investment portfolio or decrease your retirement goal.

**10. Assumed Discount Factor**

\_\_\_\_\_   
(From Table C)

**11. Annual savings required to meet goal**

\_\_\_\_\_   
(Multiply line 9 by line 10)

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Years of Retirement	Net Return Factors (2%)
15	12.85
16	13.58
17	14.29
18	14.99
19	15.68
20	16.35
21	17.01
22	17.66
23	18.29
24	18.91
25	19.52
26	20.12
27	20.71
28	21.28
29	21.84
30	22.40

Years until Retirement	Return Factors (3%)
	1.56
15	1.60
16	1.65
17	1.70
18	1.75
19	1.81
20	1.92
22	2.03
24	2.16
26	2.29
28	2.43
30	2.58
32	2.73
34	2.90
36	3.07
38	3.26
40	

<b>Table C</b>	
<i>Years until retirement</i>	<i>Net inflation: (Adjusted return 3%)</i>
15	0.053
16	0.049
17	0.045
18	0.042
19	0.039
20	0.037
22	0.032
24	0.029
26	0.025
28	0.023
30	0.021
32	0.019
34	0.017
36	0.015
38	0.014
40	0.013

## **Chapter 10: Social Security - The Retirement Program We Love to Hate**

While it's not perfect, Social Security can play an important role in funding your retirement. The longer you wait to begin collecting, the larger each monthly check will be. But the sooner you start, the more checks you'll get.

Which is best for you? To decide, you need to consider such factors as whether you'll continue working and earning past retirement age. If so, Uncle Sam will give with his right hand, and take some back with his left!

An imponderable to ponder is your state of health. In general, the break-even point...when you would have collected more by waiting until your full retirement age...comes at about age 78. If you live longer than 78 years and you collect more by waiting. On the other hand, if you live less than that, you would have been better off collecting earlier!

If you haven't already received it, contact the Social Security Administration (800-772-1213 or [www.ssa.gov](http://www.ssa.gov)) to request your "Personal Earnings and Benefit Estimate Statement." Fill it out, return it, and in about a month you'll get an estimate of your future benefits.

### **The Real Social Security**

If you think about it, the idea of retirement has only existed since the mid to late 19<sup>th</sup> century. Before this time, you worked until you became too old, too ill, or you died. If you were the breadwinner for the family, those who depended on you moved in with other family members for support or ended up living in poverty. Then about 80 or 90 years ago, during the Great Depression, Social Security was created. It paid the primary worker a retirement benefit in a lump sum when they reached the age of 65. In 1940, however, the lump sum payment turned into monthly benefit checks.

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While many may think of Social Security as a replacement of their working wages, this was never intended to be the case. The purpose of Social Security is to supplement savings to live in comfort for the rest of your days. At that time quality of life was much lower and life expectancy was much shorter, so this thought may not have been way off base. Now, however, things are different.

Our quality of life has gotten much better and few expect to carry out this lifestyle through their retirement years. The quality life we have attained comes with a relatively expensive price tag. And now you have to decide how you are going to pay for it.

For example, John Collins is an average 65-year-old who is planning to retire and fund his only source of retirement is his monthly Social Security benefit check. His current annual salary is \$40,000 and he is taking full retirement when he reaches 65½.

The Social Security Administration website has a calculator on its website for calculating monthly benefits. Using the calculator located at [www.ssa.gov/planners/calculators.htm](http://www.ssa.gov/planners/calculators.htm), John's estimated monthly benefit is approximately \$1,101 per month, which is approximately 1/3 or ¼ of the salary John is bringing home now.

Here is an estimate of John's expenses. Unlike some, John has completely paid off his mortgage and does not currently have any credit card balances.

Car payment	250.00
Power/Gas Utility	100.00
Telephone	40.00
Insurance (home/auto)	150.00
Cable/water	50.00
Food/Groceries	300.00
Gasoline	50.00

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His total monthly expenses are \$940, which means John has \$161 left over each month for any other expenses that may come up, like health insurance. John can apply for Medicare, but this can cost him up \$200 per month, which means he is out of money.

This is just one example of a fictional character. You can use the Social Security Administration calculator to approximate your own monthly benefit checks.

But using this example, you can easily see how Social Security alone may not be enough to cover everything during retirement. John, for example, will not be able to live on his Social Security check alone. While there may be some ways John can cut his expenses, more than likely, he will have to find another source of income in order to live out his retirement years in some kind of comfort.



## **What you need to know about Social Security**

First, as the previous example illustrated, most people cannot live on Social Security as their sole source of income. It should only be a supplement. In order to provide for you and your family after you are gone, it is important to do some planning that includes both Social Security and other sources of income.

### **Social security statement**

Over the years, once you turned 25, you have received the Social Security Administration report of your earnings. These statements show a year by year total of your earnings and include projected estimates based on these figures as to what your future benefits will be. It is important that you review these statements for accuracy. Even the Social Security Administration makes errors, so if you find one, contact them immediately.

### **Other Social Security benefits**

If you are married, you may be eligible for Social Security benefits from their earnings. This is important to keep in mind when planning for your retirement. While the Social Security Administration always pays you from your own record first, if you also qualify from a spouse's, you will get paid a combination of benefits that equal the higher amount.

### **Factors that affect Social Security**

Several factors are taken into consideration when Social Security benefits are calculated. This book will go into detail on a few of these factors. For more information, you can visit the Social Security Administration website at [www.ssa.gov](http://www.ssa.gov).

### **Employee wages**

When you are working, your employer typically deducts Social Security and Medicare from your wages, which is how your benefit is paid for when you start collecting benefit checks. Your employer then matches the percentage they deducted from your wages and pays it to the Social Security Administration when they reported your earnings.

### **Self-employed income**

Self-employed individuals must report all of their earnings that exceed \$400 per year. If you are self-employed, you pay the Social Security and Medicare tax when you file your income tax statement.

### **Military personnel**

Military personnel and Social Security depend on the years they served on active duty. Active duty personnel after 1957 paid Social Security taxes, which are included in your Social Security record. Inactive duty periods have been covered since 1988. And anyone who served from 1940-1956 did not pay directly into their Social Security, but when they apply for their benefits; their records are credited with special earnings that count towards payable benefits.

For active duty personnel who served from 1957-2001, there are special earnings (under certain circumstances), which can be credited to your military pay record and may help qualify for Social Security or increase your benefits. These, too, are added to your report when you file for Social Security benefits. In January 2002, Public Law 107-117, the Defense Appropriations Act, stopped the special extra earnings that were credited to military service personnel.

## **Pensions and Annuities**

Any income received from pensions and annuities is not considered earned income and is, therefore, not subject to social security taxes. The same holds true for interest and dividend income. So only earned income is subject to Social Security tax and only earned income is used in figuring your Social Security benefits.

## **The Windfall Elimination Provision and Government Pension Offset**

If your employer is a federal, state, local government or nonprofit organizations isn't required to pay into Social Security, but pays into a pension plan, your Social Security benefits could be affected because of the.

The Windfall Elimination Provision says that if you are eligible for a pension and Social Security benefits, your Social Security benefits will be reduced by this provision. If this applies to you, then the way your Social Security benefit is calculated is modified. This provisions does not apply to survivor benefits or for those who earn a pension from railroad employment. For more information on the Windfall Elimination Provision, go to the Social Security WEP or the Social Security Retirement Planner WEP page on the Social Security Administration website.

## **The Government Pension Offset**

The Government Pension Offset rule affects you if you are eligible to receive a pension from work not covered by Social Security and any Social Security benefits you are eligible to receive as a spouse or widow/widower. The amount you receive in Social Security benefits may be reduced because of this rule.

*Ken Mahoney*

The Government Pension Offset rule reduces spousal or widow/widower's benefits by two-thirds of the amount of your non-Social Security pension. For example, Joe Murphy receives a non-Social Security pension of \$600 per month. Joe is also eligible for widower benefits. Two-thirds of his \$600 pension is \$400, so his widower's benefit is reduced by \$400.

### **The future of Social Security**

Now that you know the history of Social Security and where it stands today, what does the future look like for Social Security? Most experts break it down into two possibilities.

The first school of thoughts sees Social Security being deducted from employee paychecks and employer payments. Once this money is collected, it allows the employee to invest the funds into a 401k plan in order to build a nest egg for retirement.

The second school of thought has Social Security continuing in its current state, but allows Congress to intervene, when necessary to keep the fund solvent.

There are, of course, pros and cons to both schools of thought.

### **Pros for you to manage a portion of your account**

- You would be better able to maximize the return on your investment, which allows you to make more of a profit than you would normally receive from Social Security.
- Since you have ownership of the money in your investment account, you know it will be available when you retire.

**Cons for you to manage a portion of your account**

- Investing money can mean a loss of principal balance, which can put your Social Security money in jeopardy.
- You could make bad investment decisions and put your Social Security money at risk, leaving only a portion of your Social Security left when you retire.

**Pros for leaving Social Security status quo**

- Social Security remains solvent—which it has for 70 or 80 years it has existed.
- Keeping Social Security taxes together makes the fund stronger than dispersing a portion of it back to for employees to manage on their own.

**Cons for keeping Social Security status quo**

- In recent years, Social Security is stretched thin with the large number of baby boomers retiring
- Social Security is being challenged in its ability to support the continuously growing number of recipients

No matter which school of thought you are a proponent of, certain changes to Social Security are necessary for it to be around for future generations. While the U.S. Government is responsible for making these changes, it is important to remember that you too play a role. You play the role of planner, finding alternative ways to supplement your Social Security income to ensure you have enough money to get you through your retirement years.

*Ken Mahoney*



## **Chapter 11: The Care and Management of IRA and His Friends**

When employees leave their jobs, they have a choice to make about what to do with their 401k. They can either withdraw the money (and possibly incur tax penalties), leave the money in their former employers' retirement accounts (if allowed), or roll the money into another retirement plan.

If you're still working, it pays to take full advantage of all tax saving pension plans (like 401ks), especially if there's an employee match. When you consider that more than 37% of your income goes to pay one tax or another, then by not contributing the maximum amount possible is like throwing money away.

All pension type programs—IRAs, Roth IRAs, 401ks, 403bs, SEPs, and whatever other programs come down the line—have all sorts of rules associated with them. Break a rule and the cost can be high. Once you've retired, you'll want to manage your nest egg for maximum benefit, and minimum tax consequences, even if the rules don't always make sense.

For example, did you know that when tax-deferred pension money is rolled directly from the original plan to a traditional IRA, you avoid taxes until you withdraw the funds later? Additionally, IRAs offer many investment options – as well as more flexibility than most employer-sponsored retirement plans.

You can change your IRA investment profile as often as your investment needs and goals change. In general, you don't have to worry about investment options changing in an IRA, as they sometimes do in employer-sponsored plans.

Distributions from traditional IRAs and most employer-sponsored retirement plans are taxed as ordinary income and may be subject to an additional 10% federal income tax penalty if taken out prior to reaching age 59½.

By offering a greater variety of investment options, as well as greater flexibility, the IRA has become a popular retirement vehicle. With a rollover, you are free to make your individual retirement account as individual as you are.

### **More about IRAS**

An Individual Retirement Account (IRA) is a retirement investment plan that allows you to contribute a portion of your earned income each year. When you reach the age of 50, you can contribute even more to your IRA.

Almost everyone is eligible to contribute to an IRA account. The main criteria for having an IRA is that you have to have earned income for the year that equals to the amount of the contribution you are making. There is a maximum contribution limit per year, but those who are 50 or older have a higher maximum.

### **Annual contribution maximums**

- Tax year 2008, \$5,000 for those under 50
- Tax year 2008, \$6,000 for those 50 and over

The above listed maximums are for individuals. Married couples can each contribute to an IRA even if only one had an income for the year, as long as the working spouse earns enough money to cover the IRA contributions for both.

### **Types of IRAs**

There are two types of IRAs, which are the traditional IRA and the Roth IRA. A traditional IRA is tax-deferred on all of accumulated interest, dividends, and capital gains until the money is withdrawn. A Roth IRA, however, has tax-free accumulated interest, dividends, and capital gains on as long as you meet certain requirements.

### **Differences between traditional and Roth IRAs**

With a traditional IRA, tax-deferred contributions are made up to a certain limit. The contribution money is then invested. Any income earned from the investments in a traditional IRA, are not taxed as income until withdrawals are made from the plan.

When a person reaches the age of 59½ withdrawals can be made without a penalty fee. If they choose to not start withdrawals at age 59½, they can choose to wait up until they are 70½, which is the age when it becomes mandatory to start taking withdrawals.

With a Roth IRA contributions can be made up to a specified limit also, but these contributions are made on a non-deductible basis. This means that when a contribution is made to a Roth IRA no deduction is made from income tax in the amount of the contribution. Withdrawals can also begin at the age of 59½ as long as the account has existed for at least 5 years. Often times, these withdrawals are tax free of certain limitations. The other main difference between a traditional IRA and a Roth IRA is that contributions can continue to be made to a Roth IRA even after the person has reached the age of 70½.

### **What to do when you leave a job**

Long gone are the days when we spend our whole lifetime working for the same company so chances are high that you will probably leave a job where you have an employer sponsored retirement. As previously mentioned, you have three different options available, but not all may be available to you. You can either choose to rollover the plan into an IRA rollover account, take the lump sum as income and pay the taxes on the money and a penalty fee for early withdrawal, or some companies allow you to leave the retirement plan intact until you reach retirement age.

### **What is an IRA rollover?**

An IRA rollover is the term used for money moved from a qualified retirement plan such as a 401k into an IRA. If you receive a payout from your company-sponsored retirement plan, an IRA rollover can benefit you because you will continue to receive the tax-deferred status of your retirement savings and avoid paying penalty fees and taxes.

### **Contributing to an IRA rollover**

An IRA rollover is usually funded with one lump sum contribution, which is the distribution made from a qualified company sponsored retirement plan. When you rollover these funds, the fund can be combined with an existing IRA or you open a separate IRA account.

If you do create a separate IRA account for your rollover, in the future you can move these funds back into another employer sponsored retirement plan. This is also a good reason to open a separate account because if you make contributions to an IRA rollover that are not from a company sponsored plan, then you cannot move the IRA rollover back into a company sponsored plan in the future.

### **How to help your 401k beat volatility**

While there is no surefire formula for protecting your investments in your 401k, there are some things you can do to help your 401k survive when the market is on a rollercoaster cycle.

First, you have to keep a close on how the investments in your 401k portfolio are performing. By paying attention to what is happening in your portfolio, you can research, diversify, and re-balance your investments to create growth—even in volatile markets.

When the market is down, like we have witnessed a lot recently, is the time to take advantage of rebalancing and diversifying your portfolio. You may be confused if you have a 401k administrator who manages your account. The administrator is a fiduciary that is responsible for watching and adjusting the investment options offered to you and other 401k holders. You, however, can choose from the investment options offered to create your own portfolio.

This is why it important for you to pay attention to how your investments are performing, so you can make changes and adjustments when necessary.

While it important to look at the investments in your account, it is also important to review the investments options that are available. Research the track record of each investment and decide which ones fit your risk tolerance and investment style.

Visit [www.stockcharts.com](http://www.stockcharts.com) to view historical stock market charts that plot the progress of the stock market for the last few decades. Overall those who invest in the stock market see long-term growth, but that doesn't mean you don't have to pay attention to what is going on with your investments.

**What is a SEP?**

A SEP is a Simplified Employee Pension retirement plan for self-employed individuals and small businesses. A SEP allows a self-employed person to contribute towards retirement or allows a small business owner to contribute towards employee retirement plans.

**Eligible participants include:**

- A self-employed person
- Employee of a small business who has reached the age of 21
- A self-employed person who has worked for you at least 3 of the last 5 years
- An employee of a small business who has worked for you at least 3 of the last 5 years
- A self-employed person who has received at least \$450 in compensation for the year
- An employee of a small business who has received at least \$450.00 in compensation for the year

**Contribution maximums**

Just like there are maximum contribution limitations set for IRAs, there are contribution maximums for SEPs also. Self-employed individuals or employees of a small business who are covered by a SEP can contribute 25% of their net self-employment earnings or \$45,000, whichever of the two figures is lower.

**Advantages of a SEP**

There are several advantages for having a SEP retirement plan, which include:

- Investment earnings grow tax-deferred until distribution
- Easy to set up and operate
- You are not locked into making contributions every year
- Sole proprietors, partnerships, C and S corporations, and LLCs can establish a SEP
- Administrative costs are low

Many employers offer matching contributions to employee retirement plans. If your employer does this, try to contribute whatever the employer is willing to match—even if it is only a percentage of your contribution and not a dollar for dollar match. Essentially, this is free money to you and can significantly impact how much money you have at the time of retirement.

For example, Zoe Zoerson contributes \$1,000 per year into her retirement account. Her employer matches her contributions dollar for dollar, so her employer also contributes \$1,000 per year to her retirement account. Zoe is able to deduct her contribution amount from her taxes, not having to pay tax on it. Furthermore, Zoe's \$1,000 contribution and her employer's \$1,000 are invested in her account and grow as time goes by. Zoe does not have to pay income tax on the interest, dividends, capital gains, or the appreciation of her retirement account investments until she begins to withdraw the money when she turns 70½.

Matching contributions are common for 401k, 403b, and 457 plans. Sometimes the employer is only willing to make a partial match to your contributions, but you should still take advantage of this opportunity. Even if the employer contributes 50 cents for every dollar you contribute, up to the first 6 percent of your salary, it is worth it. This is free money that will compound and grow. Einstein said, "The most powerful force in the universe is compound interest."

## **Chapter 12: Make It Stick - Action Planning and Follow Up**

When builders build a house, they start with an architect's plan—a blueprint prepared by a trained professional. Then, as the project progresses, and as job conditions require changes to the initial design, sometimes the designer is brought back in but, often, the builder makes the necessary adjustments.

The same is true for financial plans, which I believe should be professionally prepared by an advisor who has the necessary experience and tools, then regularly reviewed and, if necessary, modified. Small adjustments can be made on the fly, but major adjustments probably deserve a consultation. Too often, once prepared, financial plans are treated as the “holy grail,” to be put away in a drawer, never again to see the light of day.

I've had new clients come into my office with antique financial plans, sometimes decades old, which have never been updated to reflect changes in such critical areas as current assets, rates of return, life changes, inflation, and tax rates.

In my practice, when I prepare plans, which generally range from about 48 to 60 pages, I remind my clients that we've established a good starting point, not an irrevocable program, and that, like a golf caddy, not only can I point out the financial water and sand traps, I can help you avoid them.

Perhaps picking a financial advisor doesn't require the same level of intimate awareness that goes into selecting a life partner, but it does deserve the same care that should go into choosing an auto mechanic, doctor, lawyer, or tax preparer.

**Where to find trustworthy financial planning advice**

Whether you are just starting your financial plan, need to update a plan, or need some other financial advice there are various sources of financial sources you can turn to for help. Whatever your need, think about and research the various options that are available to you before you make a final decision on who to work with for your financial planning needs.

**Financial advisors**

Certified Financial Advisors or Certified Financial Planners help clients to put a financial plan in place. These types of advisors analyze every aspect of your life from the value of your home to your debts, which is important because both your assets and your debts need to be managed for effective planning.

These advisors help you plan for the present and the future. Based on your current and future needs, income and other factors, advisors help you to find appropriate invest vehicles for your money, so that you reach your short-term and long-term financial goals.

Since you cannot put a plan in place and that's the end of it, they also re-evaluate your financial situation on an ongoing basis to make suggestions and adjustments that will help to better your financial picture.

**Banks and financial institutions**

Banks and other types of financial institutions are also great sources of financial information, like investing and planning for your retirement. Look first to the establishments where you already have an established relationship—your bank accounts, car loans, or mortgage. These institutions also have trained financial professionals on staff that can help you evaluate your financial situation.

### **Books and online resources**

For those who are more do-it-yourself types, you may choose to go down the financial planning road without a professional. There are tons of books and online resources to help with tips and tricks to keep your financial situation in good health. You can use this information to help guide you with making decisions about your own personal situation.

There are also financial blogs and newsletters you can subscribe to so you can stay up-to-date. Make sure you do a lot of research and be careful about which tips you use to make your investment decisions.

While there are many great sources of information for ideas and suggestions, you need to adapt these things to your personal financial needs and wants. Take advantage of the resources that are available to you so that you can put a financial plan in place and start sticking to it.

### **How to maximize your retirement savings if you are a late starter**

Are you closer to retirement than you would like to be without a retirement account in place? Have you been freaking out while reading this book, trying to figure out how in the world to get started saving for retirement at this late date? No worries—getting a late start on retirement savings is better than never getting started at all. Even though time is not on your side, there are a few things you can start doing now to maximize your savings for retirement.

### **Start now**

You have delayed enough, so whatever you do, do not procrastinate any longer. Even if you only have a few years left until retirement, take advantage of the time you have and use it to your advantage.

So whether you have 2 years or 20 years left, it is important to start planning and saving for retirement as soon as you can. Don't worry about how much you can save either. Whether you can afford to save \$25 per month or \$250 per month, saving it now is better in the long-run than waiting until later to do something about your retirement.

### **Be conservative**

If you are a late starter, it doesn't mean you should go into saving and investing like gangbusters. Being aggressive and taking a lot of risk can do your retirement savings and investments more harm than good. Be wise and approach investing your money conservatively. It is important to grow and increase the value of your retirement account, but it is just as important to protect the principal you invest in the first place.

### **Get help**

Try not to play the hero either. Do-it-yourself retirement savings hasn't been your forte up until now if you waited to the last minute to start, so you should consider getting some professional help and advice. Everybody needs a little help sometime and your time may be now. Consider working with a Certified Financial Planner or Financial Advisor, who will help you put your goals on paper and create a realistic plan to help you carry it out through your retirement years. Financial planners can help you to turn your plans into actions—actions that help you achieve your retirement goals.

### **Take time into consideration**

With your retirement savings plan in place, you should invest for the highest possible return for the time you have left until retirement. Obviously, the more time you have until retirement, the more risk you can take with your investments.

*Ken Mahoney*

The less time you have until retirement, the less risk you can take with your investments. Many high return investments seem like a good idea but these investments are usually volatile. If you take too much risk can, you put your principal in danger.

So while a late start is better than no start at all, it is important to take the steps necessary to preserve your principal. Take the time to consider your investment opportunities before launching into any type of retirement savings plans and try to get some professional help to increase your odds of achieving your goal. Do not wait any longer than now to start some kind of a retirement plan and fund. Leverage what you have today to create your future.

## **PART 3: Getting Older - Your Health and Legacy**

### **Chapter 13: Health Care**

Your health will drive your retirement decisions and options. The older you get, the more likely it becomes that health care will be a major and recurring concern. You need to be very careful when choosing and using health care providers—as well as other people who can make life and death decisions for you, when you can't. You'll want to consider long-term care insurance, Medicare Part B, Medicare Supplemental and Medicare Part D. You may also profit from understanding the various Medicaid tricks, traps, and troubles which have bankrupted many a family when one member needed nursing home care.

#### **What you need to know about health insurance**

With the health care costs continuing to rise, it is important to understand that health insurance is not really an option for most individuals—more like a necessity. While you are working, most employees obtain a health plan from their employer, but once you hit retirement the employer paid premiums, low co-payments, and cheap out-of-pocket expenses for you may get thrown out their window.

Unless your retirement with your employers covers your health insurance after retirement (which most do not) then you need to consider what options of health care coverage are available to you. And choosing the best health insurance policy and coverage takes time to research before you can make a decision on which is the right plan for you and your needs.

*Ken Mahoney*

### **Health plan coverage**

There are many health plans to choose from and these plans also have many features and exclusions. The older you get, the harder it can be to get health insurance coverage. So keep in mind that the sooner you can establish one after retirement and the healthier you are when you get one, the better off you will be where the costs, terms, and conditions of the policy are concerned.



### **Types of coverage**

There are five main areas of coverage you need to be concerned with when shopping for a health insurance plan—major medical coverage, choice of health care providers, lifetime maximum benefits, deductibles and co-payments, and guaranteed renewals.

Major medical coverage is your primary concern because it is the most expensive part of health care that can drain your wallet if you have a major accident or are diagnosed with a major illness. This type of coverage includes hospital stays, visits to the doctor, X-rays, and laboratory work.

The next type of coverage you need to be concerned with is your ability to choose the doctors and specialists you want. While being able to choose any doctor you want should not be the deciding factor for you to choose a health plan, you should be aware of what your patient rights are with the policy. A plan that allows you to choose any doctor may be very expensive—making it cost prohibitive for you to have.

The most common and least expensive of health plans are Health maintenance organization (HMO) plans and preferred provider organizations (PPO) plans. Both HMOs and PPOs help to keep the cost of health insurance, co-payments, and out-of-pocket expenses down.

While there are differences between HMO and PPO plans, these plans have more similarities than differences. The main difference between the two plans occurs when the doctor you want to see is not on the preferred provider list. If you have an HMO, it may not cover the cost of services from the doctor. A PPO may still pay the majority of the expenses, and then you are responsible for paying the rest.

The third item you want to be ware of when shopping for a health plan is the lifetime maximum benefits. This is the total amount the insurance will pay over the life of the policy. Ideally, you may want to choose a plan that has a maximum lifetime benefit of \$5 million or does not have a maximum limit at all—just in case you have a scenario where you come down with a major disease or have a horrible accident.

Fourth, you need to consider the deductibles and co-payments involved with the policy. These two items have a direct affect on the premium of the policy, so the higher the amount of the deductible and the higher the amount of the co-payments, the lower the monthly premium payments. The best way to keep your health insurance premiums affordable for you is to choose a plan with the highest deductible and co-payments you can afford.

*Ken Mahoney*

Finally, you may want to seek a plan that has a guaranteed renewal feature—especially as you get older. This feature allows your policy to continue to renew, unless you cancel it, regardless of your health condition and without having to administer to a physical exam. Again, as we age, our bodies are more susceptible to illness, disease, and complications. We need a policy that sticks by us no matter how healthy we are as we age. The guaranteed renewal feature extends our protection at a time when we probably need it the most.

### **Purchasing a plan**

So where is the best place for you to buy a health insurance plan? You have several options when shopping for a health insurance provider. First, you can contact health insurance agents, which represent several different health insurance companies and can help you choose from a menu of providers and services the policy that is right for your needs. You can also go directly to the health insurance providers and shop and compare the policies yourself. Doing it yourself can be time consuming and confusing, if you are not familiar with how insurance policies work. Finally, there are online organizations like the Insurance Information Institute [www.iii.org](http://www.iii.org), where you can find information on the types of policies that may be available to you and where you may be able to purchase a policy.

If you haven't retired and you have an employer provided health insurance policy, find out if this policy does or can extend into your retirement. If you are self-employed and have insurance coverage, talk with your provider to find out how you're retiring and/or closing your business (if applicable) affects your coverage. If it terminates once you retire (whether employed by a company or self-employed) then your best bet is to research and compare some of the older and larger health insurance companies' policies, which may offer more competitive pricing.

Some health insurance companies require physical exams and look into your medical history, which can cause you to be denied if the insurance company thinks you are too high of a risk. If you are denied insurance coverage contact health insurance companies that do not require a health exam to qualify. Depending on the state where you live, some states offer plans to those who cannot qualify for health coverage any other way.

### **After age 65**

For those who are already retired or are 65 or older, the government offers a health insurance plan—Medicare.

Medicare has four major parts of enrollment:

- Part A: Hospital expenses
- Part B: Physician and other expenses
- Part C: Supplemental coverage (third party insurer)
- Part D: Prescription drug coverage

While Part A Medicare coverage is automatic once you apply for Medicare, Parts B, C, and D are optional. With Medicare coverage you are responsible for meeting deductibles and paying co-payments for Medicare services.

To bridge the gap between what Medicare does not cover there is also Medigap insurance, which may cover the charges Medicare does not. If you cannot afford to pay for the deductible and co-payments because of low income, then Medicaid is available to help people in this situation. Medicaid a state funded insurance plan and can also be used with Medigap insurance.

Part D coverage is relatively new—started in 2006—and helps cover the cost of prescription drugs. There are restrictions, however, to the program you need to know about before opting in, which may only make sense to do if you expect to pay more than \$5,000 on prescription drugs in a year.

*Ken Mahoney*

With Medicare you are responsible for paying the first \$3,600 of prescription drug coverage out of your own pocket before Medicare kicks in. Medicare then pays 95% of prescription drug costs after the first \$5,100. So unless you pay or expect to pay more than \$5,000 on prescriptions, then this may be a coverage you choose not to partake.

There are enrollment restrictions with Part D, so be sure to make an educated decision before opting out. If you choose not to enroll in Part D when you apply for Medicare, but decide to enroll later, there is a penalty fee is charged.

A better option may be to enroll in the lowest cost Part D option available and then upgrade to a better coverage option later, if necessary, to avoid paying the penalty. For complete Medicare information, visit [www.medicare.gov](http://www.medicare.gov).

#### **Long-term care insurance**

Once you have your health plan coverage established, you may think the battle is over and sigh in relief. The truth is that many retirees worry whether or not to buy long-term care insurance (LTC), which covers extended stays in nursing homes. These policies are very expensive and have many exclusions and limitations associated with them, which is one reason why the decision to buy or not, plagues many people.

There are more reasons not to buy a LTC than there are benefits to buying it. First, the stay in a nursing home for most is less than one year, which means the cost of a policy far exceeds the cost of paying for a one-year stay out your own pocket. Second, if you are covered by Medicare, it picks up the cost for the first 100 days of a stay in a nursing home, as long as certain conditions are met. Finally, most individuals have family or friends who can care for them during this one-year period, which means they avoid the nursing home stay altogether.

### **Healthcare for baby boomers**

The Commonwealth Fund reports that more than 60% of adults ages 50 to 64 who are working (or have a working spouse) have been diagnosed with at least one chronic health condition—arthritis, cancer, diabetes, heart disease, high cholesterol, or high blood pressure. The report goes on to say 1/5 of older workers and their spouses—7 million Americans—either do not have healthcare insurance or have been uninsured at some time since they turned 50.

### **Is U.S. healthcare in trouble for baby boomers?**

This report does raise an alarm for how the U.S. healthcare system can cope with the current and growing future needs of aging baby boomer population.

Baby boomers face:

- Increasing healthcare issues
- Unstable healthcare insurance coverage
- High medical costs
- Debt problems

### **Inadequate healthcare coverage**

even those baby boomers who have healthcare coverage, many do not have coverage that is adequate to cover all of their medical expenses.

In fact, approximately 6% of insured older working adults—1.8 million people—are underinsured. Their healthcare plan does not protect them against high medical expenses when compared to their income. The Commonwealth Fund study also found that 1/3 of those surveyed already have medical bill problems or are in medical debt. Approximately 23% said there was a time when they went without. Overall, there is a lack of confidence in healthcare coverage among boomers.

*Ken Mahoney*

Boomers with low to middle-class incomes are worried about being able to afford their healthcare insurance coverage during retirement. With 42% of boomers having incomes between \$40,000 and \$60,000, they are “very worried” about being able to afford healthcare insurance. A large majority (72%) said they are interested in receiving Medicare before age 65—if this were a possibility. Even boomers with higher incomes agree that they would be “very or somewhat interested” in early enrollment in Medicare.

Out-of-pocket healthcare expenses seem to be what takes the biggest chunk of household income from boomers when it comes to health care—with 5-11% or more of their income being spent on out-of-pocket healthcare costs and premiums—no matter which income bracket they fall into.

**Self-employed individuals face the biggest healthcare burden**

The self-employed are the ones that may be the most burdened by the healthcare costs. Close to 55% of self-employed boomers spend more than \$3,600 per year on healthcare insurance premiums. For those with individual policies, ¾ of the boomers spend 5% or more of their annual income on premiums and out-of-pocket medical expenses.

You can read the full Commonwealth Report on aging boomers online at [www.cmwf.org](http://www.cmwf.org).

**Can you afford to grow old?**

At this point you are probably wondering if you can afford to grow old and retire. It’s a valid thought, but since we have no choice in the matter, you have to prepare to ante up and pay these additional expenses. Planning and making some lifestyle changes may be in order to accomplish it and while nothing is guaranteed there are some steps you can take to make sure you can afford to take care of your health and your spouse’s health when you retire.

- **Long Term Care Insurance**

Previously, we discussed the reasons why long term care insurance may not be right for everyone, but there are individuals who benefit from buying LTC insurance.

The longer you live, the more likely the chance that you will need help with daily living such as bathing, dressing, or preparing meals. And the longer you live, the higher the chances are that your loved ones may go before you do, leaving nobody that can take care of these needs for you. Others do not want to burden their loved ones with taking on these responsibilities. These are all candidates for long term care insurance.

And to add insult to injury none of these activities are covered by Medicare. Medicare also does not pay for nursing home care considered custodial in nature. Again, this is where long term care insurance comes to the rescue.



- **Secondary Health Insurance**

Supplementing your Medicare benefits may be necessary to ensure that you are covered once you retire. Check with your employer before you retire to see if you are eligible for health care benefits during retirement—these benefits act as a secondary or supplemental insurance to Medicare, helping to cover the large annual Medicare deductible and the 20% co-payments.

- **Medicare Supplements**

There are health policies specifically designed to supplement Medicare coverage—if you are not covered by your employer’s policy after retirement. The benefit levels and costs of these policies vary, but it can help to curb healthcare costs.

- **Save on prescriptions**

When feasible, shop and compare on your prescription drugs. Talk to your doctor before he writes the prescription to see if there is a generic version of the medication—helping you to stretch your retirement dollars and save money on your medications. Find pharmacies and programs offering discounts to seniors like the AARP mail order drug program. Some seniors report savings of up to 50% on prescriptions.

- **Preventative care**

The best way to save on your healthcare costs is to live a healthy life and save medical costs altogether. Illnesses like diabetes and heart disease can kill a lot of healthcare dollars over your lifetime. Exercise, eat a healthy diet, don’t smoke, drink alcohol in moderation, etc. Do what you can to prevent health problems down the road.

**Research your Medicare options before retirement**

All of the problems that healthcare can cause during retirement is the number one reason why you should research your Medicare options before you retire. Then you will know if Medicare fits your needs on its own or if you have to supplement it with another type of coverage. Part of planning your investment portfolio for retirement includes healthcare coverage.

**Why should you research Medicare now?**

While Medicare does cover many basic medical expenses, it does not cover all of your medical expenses during retirement. There are also many exceptions and limitations of Medicare.

This is why it is important to understand all of the coverage, deductibles, co-payments, and limitations of Medicare now so that you can obtain supplemental health care insurance that will cover the rest of your health benefits. Also, it is easier and less expensive to get insurance when you are younger and healthy, so do your research as far in advance as you can so you can adequately plan for all aspects of your retirement.

Make sure that part of your financial investment portfolio is devoted to covering medical expenses during retirement. Having the knowledge of what Medicare has to offer and where it falls short gives you the power to make decisions that will get you through your golden years.

## Chapter 14: Facts and Fiction About - Long Term Care (LTC)

Few people understand the risks, costs, and options associated with long-term care. And why would they? It's not pleasant to consider the possibility that you could spend the end of life unable to care for yourself. But it's also unpleasant to confront the reality that if one spouse needs long-term care, it could consume those hard earned assets the other needs for living expenses.

Roughly 40% of deaths in the United States are now preceded by a period of enfeeblement, debility, or dementia that can last for years. Studies put the chances of a 65-year-old eventually needing long-term care from 20% to 49%.

But Medicare covers only the first 20 days of *skilled nursing care* when physician-ordered treatment occurs within 30 days of a three-day hospital stay. For days 21 to 100, the patient is responsible for the first \$128 per day (in 2008), and all costs beginning on day 101.

### Three levels of long-term care

1. *Custodial care* is primarily for people who need help with the six basic activities of daily living — eating, dressing, walking, getting in and out of bed, taking medicine, and bathing. Medicare does not cover this type of care.
2. *Intermediate care* is for people who require occasional nursing care or rehabilitative care by trained medical professionals. Some people can receive this care at home, while others may need to be in a nursing home. Medicare may cover some types of intermediate care, subject to the limits mentioned above
3. *Skilled nursing care* is for people who no longer need to stay in the hospital but who require the direct daily care of doctors, nurses, and other health-care professionals. This type of care exceeds the “helping hands” assistance that family members are capable of giving.

When Medicare will not help, many people think that Medicaid will pick up the slack. While Medicaid might cover long term care expenses, it generally won't kick in unless you're impoverished ... or until you've "spent down" your assets to the level required in your state. When you apply, Medicaid has the right to look back at all your financial transactions over the preceding 60 months to discover whether you gave away your assets or sold them for less than fair market value to qualify for benefits. If so, you could be ineligible for full Medicaid benefits for up to 100 months.

You may believe that long-term care insurance is too expensive, but not having it can be much more expensive if you eventually need care. The national average cost for nursing-home care is \$70,912 per year, although the cost can vary greatly among geographical regions. By comparison, the national average long-term-care insurance premium for a 55-year-old is about \$665 per year for a married individual and \$1,075 for a single individual. Waiting until age 65 to purchase a policy would increase these average amounts to \$1,292 and \$1,923 per year, respectively. These premium amounts would translate to an average benefit of about \$100 per day for three years for the married payer and about \$150 per day for three years for the single payer. (Again, these are national averages. Actual rates will vary widely.)

Ultimately, your decision boils down to paying long-term-care costs yourself or transferring some of the financial risk to an insurance company through a long-term-care policy. Choosing the long-term-care insurance policy that's appropriate for you involves a number of variables, including your age, health, and financial status. By understanding all your options, you'll be better equipped to make an informed decision regarding your long-term-care needs.

## **Chapter 15: Gifts of Love - Avoiding Probate and Estate Taxes**

Why it is better to give, than have it taken away! Why you need a will, why you want to make sure yours never sees the light of day, and how you can minimize your estate's expenses. Avoiding probate and estate taxes with living trusts, life insurance trusts, and irrevocable trusts. Naming executors and guardians. And, most importantly: debunking the myths surrounding estate taxes and gift giving.

More often than not, couples share joint accounts to take advantage of marital deductions, and to help avoid probate delays and costs. Sometimes joint accounts are a great tool, but sometimes they are not.

These gifts include: clear instructions for your funeral, lists of important names, numbers, and locations, complete account information, gifts to charity, and organized closets.

Knowing that you've planned for the end can ease your burden in the present. Hence the following suggestions for planning a fine finale — one that has all of your last wishes honored. Taking control of your finances shouldn't end when you do.

### **Here's what to do:**

- ❖ First, cover the basics. Make sure your family will have enough ready cash available for at least a few months of living expenses.
- ❖ Get your papers in order. Sooner or later, somebody will have to do it. Make it easy on your family, by taking care of it now. Search out all your important records. Put together a chart showing what you have and where everything can be found. (Yeah, it's boring. Do it anyway! It'd be so much harder for anyone else.)

❖ You want to make sure that your will, insurance policies, funeral preferences, and living will (if you want no heroics) — can be easily located when needed. (They should not be in a safe deposit box!)

❖ Then add up your assets and liabilities. Twice. Once for everything you own and owe now. Then a second time, including any pension money or insurance proceeds that your family would receive upon your demise. **Important:** While it's not a light and lively subject, dying may be the most expensive thing you ever do! It's well worth the time and money to make sure you make the most of what you've earned and own. While you and your heirs ought to pay your fair share, you surely don't want your family to pay a penny more in state or federal estate taxes than is required. Right?

❖ So do your homework. The more estate law basics you know, the more your heirs will receive.

### **What is probate?**

When someone dies and there isn't a will, probate is the process the court goes through to locate the decedents' assets, determine the value of the assets, and pay the decedent's final bills and estate taxes (if required). Then the court distributes any assets left to the decedent's heirs.

Probate laws vary by state, but general probate steps include:

1. Appointing a personal representative, also called an executor or administrator, to oversee the disposition of the estate.
2. Locating and protecting all of the decedent's assets.
3. Figuring out the date of death values for all of the decedent's assets.
4. Locating all of the decedent's creditors and notifying them of the decedent's death.

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5. Publishing a notice in a local newspaper to notify unknown creditors of the decedent's death.
6. Paying all of the decedent's final bills.
7. Filing the decedent's final income tax return.
8. Determining if any state and federal estate tax will be due.
9. If any estate taxes are due, raising the cash necessary to pay the taxes and then paying them in a timely manner.
10. Distributing the balance of what's left of the decedent's assets to the beneficiaries of the estate.

A common and simple way to avoid putting your heirs through the probate process is to establish and fund a revocable living trust.

#### **Setting up a revocable living trust**

A revocable living trust is established in writing and involves the Trustmaker, the Trustee, and the Beneficiary. In a typical situation, when the trust agreement is created these three players will be the same person. Once the trust agreement is signed, the Trustmaker funds the trust with his or her assets, then designating the trust itself as the beneficiary of retirement accounts, life insurance, annuities, and any other assets. The Trustee then manages, invests, and spends the trust property for the benefit of the.

### **How a revocable living trust avoids probate**

Because the Trustmaker doesn't own any of the trust property in his or her individual name—assets are owned by the Trustee for the benefit of the Beneficiary—when the Trustmaker dies, the trust assets do not need to be probated.

Even though the Trustmaker has died, the trust itself continues to live on and the Successor Trustee, who is named in the trust agreement now has the legal authority to step into the Trustmaker's shoes. The Successor Trustee will collect life insurance proceeds, retirement accounts, annuities, and other assets. He or she then pays all of the Trustmaker's final bills, debts and taxes, and then distributes the balance of the trust funds to the Trustmaker's ultimate beneficiaries—also named in the trust agreement.



### **Estate taxes**

There are four types of taxes you need to be aware of when putting together your estate plan.

- Gift taxes
- Estate taxes
- Generation skipping taxes
- Income taxes

### **Gift taxes**

As of 2007, the IRS' federal tax code permits you to gift up to \$12,000 per year, per person. If you gift more than \$12,000 in a year to one person, you are responsible for paying a gift tax on the money you've given.

This doesn't mean you have to whip out your checkbook and write the IRS a check right away. The federal tax code gives you a lifetime exemption of \$1,000,000 to offset your taxable gifts.

For example, your daughter and son-in-law are buying a house, so you give them \$100,000 as part of the down payment. For gift tax purposes, the first \$12,000 is exempt, but the next \$88,000 is considered a taxable gift. This deducts from the \$1,000,000 lifetime exemption, leaving you with a new lifetime exemption amount of \$912,000.

In addition to the federal gift tax, many states have a state gift tax code, so check with your state for its rules on gift taxes.

### **Estate taxes**

Federal estate tax applies to estates valued at more than \$2,000,000 and is scheduled to increase to \$3,500,000 in 2009. In 2010, the estate tax will disappear for the year and decrease to a \$1,000,000 limit.

Many states also have an estate tax. Since state laws change frequently, you should consult a qualified estate planning attorney for more information.

### **Generation skipping taxes**

A generation skip occurs when you gift or transfer money to someone in your family who is two or more generations below your generation. So you could gift to a child or a grandchild, for example, and skip the taxes. The current federal generation skipping tax allows for transfers up to \$2,000,000. You can also transfer assets to a non-relative who is 37 ½ years younger than you.

Some states impose a separate state generation skipping tax. It is best to consult with a qualified estate planning attorney to determine if your state has its own generation skipping tax.

### **Income taxes**

While many estates and trusts are not affected by gift, estate, or generation skipping taxes the majority of estates and trusts are affected by income taxes. Trust assets continue to earn interest until the assets are distributed and accounts like IRAs, 401ks, and annuities have income tax consequences when the owner dies.

Estates up to \$2,000,000 are currently exempt from federal income taxes. Many states impose taxes on the assets owned by residents of their states and real estate owned by non-residents.

If an estate exceeds the federal or state limits, then there are four ways to reduce estate values to reduce the amount of taxes imposed.

**1. Reduce assets**

The quickest and easiest way to reduce the value of an estate is to reduce the amount of its assets. The problem is knowing how much to spend and still have enough money to get through retirement without running out of money.

**2. Gift assets**

You can also gift your assets to friends, family, and charity. Gifting assets has the same problem as spending or reducing assets has, which is knowing how much to spend and still have enough money to get through retirement without running out of money.

**3. Create an estate plan**

Putting an estate plan in place can drastically reduce and even eliminate estate taxes. Married couples can use a basic AB Trust to significantly reduce or even eliminate estate taxes assessed against their estates. Married couples and individuals can use an Irrevocable Life Insurance Trust (ILIT) to hold and own life insurance.

*An ILIT offers two benefits:*

1. It deducts the value of life insurance policies from the value of the estate.
2. The insurance proceeds can be used to pay bills, expenses, and taxes.

**4. Use advanced estate planning techniques**

There are many other advanced gifting and estate planning techniques designed to reduce or eliminate estate. Charitable Remainder Unitrusts, for example, allow the Trustmaker to receive a charitable income tax deduction when the trust is funded. This type of trust also gives the Trustmaker's estate an extra estate tax charitable deduction for the property going to charity after he or she dies.

You have worked very hard for your money and if you want to pass this money on to your children and grandchildren, the last thing you want to do is to burden them with the tax consequences that sometimes come along with this type of income. There is one other tax-cutting measure you can take to gift the money to your children and grandchildren without causing them to suffer the consequences.

**Custodial Accounts**

Most banks, financial institutions, and brokerage have custodial accounts without fees. Depending on the state that you live in, these accounts may be called UTMAS or UGMAS. Since the income received from these types of accounts is taxed at the tax bracket of the child or grandchild, instead of you as the grantor, then fewer taxes will have to be paid on the money.



## **Appendix A: Retirement Planning Glossary**

### **A**

**Actuary:** A person who calculates risks and premiums.

**Annual Return:** The total return on an investment which includes dividend payments and capital.

**Annuity:** an investment of money entitling the investor to a series of sums over a stated period.

### **B**

**Bankruptcy:** declared in law unable to pay debts

**Beneficiary:** a person who receives benefits under a trust, policy or will.

**Benefits in kind:** Benefits excluding salaries given to employees by employers e.g. car, car fuel, medical etc.

**Bond:** a certificate issued by a government or a public company promising to repay borrowed money at a fixed rate of interest at a specified time.

### **C**

**Capital Growth:** The increase in value of an asset.

**Capital Structure:** The components which form a company's capital (ordinary shares, preference shares, debentures etc).

### **D**

**Decreasing term assurance:** Life insurance which decreases over the term of the policy.

## **E**

**Earned Income:** Income that comes from work (salary, wages).

**Execution Only Broker:** A broker who buys and sells shares on the instructions of clients but who offers no advice.

## **F**

**Final Salary Scheme (Defined Benefit Scheme):** A pension scheme in which an employee's pension is based on number of years of service and final salary.

**Financial Adviser:** A professional person qualified to give advice to clients regarding a range of financial products.

**Footsie:** The Financial Times 100 Share Index is a measure of Britain's top 100 companies.

**Fund:** A stock of money.

**Fund Manager:** A professional person whose role is to decide how fund money is invested.

**Fund Switching:** The movement of money from one fund to another.

## **G**

**Gain:** Acquire as profits.

## **H**

**Hang Seng Index:** The main indicator of stock market performance in Hong Kong based on 33 companies.

**Health Insurance:** Generic term for insurance covering costs incurred due to illness or injury.

**Home Income Plan:** A plan enabling the elderly owner of a property to utilize its capital value.

**I**

**Index linked term assurance:** Term assurance in which premiums and benefits are increased in line with a specific index.

**Inheritance Tax:** Tax due on an estate following the death of the owner.

**J**

**Joint Life Assurance:** An assurance policy usually taken out on two lives, typically husband and wife.

**L**

**Lump Sum:** A sum of money paid in a single installment.

**M**

**Market Value:** Value as a saleable thing.

**Money:** A current medium of exchange in the form of coins and banknotes.

**N**

**NASDAQ:** The first electronic stock market.

**National Debt:** The total debt accumulated by a government through the issue of government bonds, treasury bills etc.

**Normal Retirement Age:** The age at which a person normally retires.

**O**

**Occupational Pension Scheme:** A pension organized and managed by an organization for the benefit of its employees.

**P**

**Pension Forecast:** A projection of estimated pension income upon retirement.

**Pension Mortgage:** A pension plan which uses the lump sum to repay a mortgage.

**Pension:** A regular payment made to people above a certain age.

**Personal Income:** A person's total income.

**Phased Retirement:** Gradual reduction in working hours when approaching full retirement.

**Q**

**Quartile:** The investment industry divides performance into four equal groups.

**Quote:** An estimate of future returns.

**R**

**Registrar of Companies:** The official body with responsibility for the registration of companies.

**Retire:** leave office or employment

**S**

**Safe:** Not involving danger or risk.

**Sale:** The exchange of a commodity for money etc.

**Share:** A portion of an enterprise

**Stock Exchange:** An association of dealers in stocks and shares, conducting business according to fixed rules.

**T**

**Take home pay:** The amount of money available after all deductions from salary.

**Tax avoidance:** The minimizing of tax liability via legal activities.

**Term:** A specific period of time.

**Testate:** Having left a valid will at death.

**Tokyo Stock Price Index:** The index of the 1,000 largest companies quoted on the Tokyo Stock Exchange.

**Tracker Fund:** A fund which aims to achieve the same returns as a specific share index.

**Trust Fund:** A fund of money etc held in trust.

## **U**

**Umbrella Fund:** A collective fund containing several sub-funds, each of which invests in a different asset class.

## **V**

**Valuation:** The worth of a portfolio of investments.

**Variable Interest Rate:** The rate offered by an institution which is likely to fluctuate in line with the base rate.

## **W**

**Warrant:** Securities issued by a company which give their owners the right to purchase shares in the company at a specific price at a future date.

**Will:** A written document usually instructing funeral wishes and how an estate is to be distributed upon death.

## **X**

**Xd:** Ex dividend. **Xw:** Ex warrants

## **Y**

**Year End Dividend:** An additional dividend paid at the end of the trading year.

**Yield:** The return of money.

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**Z**

**Zero Coupon Bond:** A bond which pays no interest through its life.

**Zero Dividend Preference Shares:** Preference shares which receive no dividend throughout their lives.

## **Appendix B: Investment Glossary**

### **A**

#### **Accumulation**

This is another way of saying: professional buying. A stock is under accumulation when volume expands on days when price moves up.

#### **Alpha**

Alpha measures a stock's average monthly move over the past 12 months if the S&P 500 index is unchanged during this 12-month period. For example, a stock with a high alpha of 7 would be expected to rise 7% in a month given an unchanged S&P 500 index.

#### **American depositary receipt**

Known as ADRs, these securities are created by a U.S. bank and represent foreign securities that trade in the U.S. financial markets.

#### **Annual report**

Companies send their shareholders an annual report at the end of a fiscal year. The magazine or brochure sizes up company operations and displays earnings, sales, balance sheets, and financial footnotes.

#### **Arbitrage**

Arbitrageurs make their living by seizing on price differences for a security traded on a different market or in a different form, such as an option or a futures contract. Someone who buys, say, a soybean contract on one market and sells a soybean contract on another exchange is practicing arbitrage by locking in a profit.

#### **Ask**

This is the quoted ask, or the lowest price an investor will accept to sell a stock. Practically speaking, this is the quoted offer at which an investor can buy shares of stock.

**B**

**Balanced mutual fund**

This is a fund that buys common stock, preferred stock and bonds.

**Basic earnings**

A simple calculation that takes net income divided by shares outstanding to get per-share earnings.

**Basis point**

In the bond market, the smallest measure used for quoting yields is a basis point. One basis point is 0.01 percent of a bond's yield. Basis points also are used for interest rates. An interest rate of 5 percent is 50 basis points greater than an interest rate of 4.5 percent.

**Bellwether stock**

The stock of a company recognized as a leader in its industry. For example, IBM is considered a bellwether stock in the computer field. Often, the fortunes of an industry are reflected in the behavior of its bellwether stocks.

**Beta**

This measures the volatility of a share of stock. A high beta stock, for example, will rise more in value than the stock market average on a day when shares in general are rising. And it will fall more sharply than the average on a day when shares are falling. The Standard & Poor's 500 Index of stocks, an index that represents large-company stocks, has a beta of 1.

**Bid**

This is the quoted bid, or the highest price an investor is willing to pay to buy a security. Practically speaking, this is the available price at which an investor can sell shares of stock.

**Bond**

Bonds are debt and are issued for a period of more than one year. The U.S. government, local governments, water districts, companies and many other types of institutions sell bonds. When an investor buys bonds, he or she is lending money. The seller of the bond agrees to repay the principal amount of the loan at a specified time. Interest-bearing bonds pay interest periodically.

**Book to Bill**

Book to bill is the semiconductor book to bill ratio. It reports on the amount of semiconductor chips that are booked for delivery as compared with those that companies already have billed for.

**Book value**

A company's book value is total assets minus intangible assets and liabilities such as debt. Book value might be more or less than the market value of the company.

**Breadth**

This is one of those technical terms you hear in a trading room. It simply demonstrates how broadly a market is moving. When three-quarters of the stocks on the New York Stock Exchange, for example, rise during a given day, an observer might say the stock market had good breadth. Often, observers will measure the number of stocks advancing against the number declining as one way of monitoring breadth.

**Buy Price**

Enter here the price you paid for a security. If, for example, you paid 8 1/4 a share for a security, enter 8 1/4.

**C**

**Call option**

This security gives investors the right to buy a security at a fixed price within a given time frame. An investor, for example, might wish to have the right to buy shares of a stock at a certain price by a certain time in order to protect, or hedge, an existing investment.

**Certificate of deposit**

CDs, as they are called, pay interest to investors for as long as five years.

**Change**

This shows the change in price of a security from the previous day's closing price. For instance, -1 1/8 means the security has fallen \$1.12.

**Chief Operating Officer (COO)**

A person who has full operational responsibilities for the day-to-day activities of an organization.

**Closed-end fund**

A closed-end fund sells a fixed number of shares to investors. Those shares sell on an exchange and vary in price, depending on demand for the fund. A fund's shares, for example, can trade below their net asset value or above their net asset value - depending on investors' demand for the shares. Country funds that represent shares in a specific country or region, such as Italy or France, are often closed-end funds.

**Commission**

This is a fee an investor pays a broker for buying or selling securities.

**Commodity**

A commodity is food, a metal or another physical substance that investors buy or sell, usually via futures contracts.

**Common shares**

These are securities that represent equity ownership in a company. Common shares let an investor vote on such matters as the election of directors. They also give the holder a share in a company's profits via dividend payments or the capital appreciation of the security.

**Consumer Price Index**

The CPI, as it is called, measures the prices of consumer goods and services and is a measure of the pace of U.S. inflation. The U.S. Department of Labor publishes the CPI every month.

**Consumer stock**

The stock of a company that produces consumer-oriented products, like food, beverages, tobacco, and pharmaceuticals.

**Currency**

This shows the currency that a security trades in, such as USD for U.S. dollar.

**Current Yield**

If a security has a dividend, the yield is the price of a stock dividend. A \$10 stock that pays a 50 cent dividend for the year has a 5% yield.

**Cyclical stock**

The stock of a company whose fortunes are closely tied to the cyclical ups and downs of the economy in general. For example, General Motors is a cyclical stock since its business of selling autos is highly dependent on a robust economy with its attendant high levels of employment, rising personal incomes, etc.

**D**

**Day High**

This is the highest price that a security has traded at during the day.

**Day Low**

This is the lowest price that a security has traded at during the day.

**Devaluation**

A lowering of a country's currency relative to gold and/or currencies of other nations. The opposite is revaluation.

**Debenture**

The common type of bond issued by large, well-established organizations. Holders of debentures representing corporate indebtedness are creditors of the corporation and entitled to payment before shareholders upon dissolution of the corporation.

**Convertible Debenture**

Corporate securities (preferred shares or bonds) that are exchangeable for a set number of another form at a pre-stated price.

**Subordinated Debenture**

A debt that is junior in claim on assets to other debt, repayable only after other debts with a higher claim have been satisfied.

**Diluted earnings**

A calculation that includes stock options, warrants and convertible securities to get per-share earnings.

**Discount rate**

This is the interest rate charged by the U.S. Federal Reserve, the nation's central bank, for loans to member banks. The Fed, as it is called, alters rates to increase or decrease the growth of the nation's economic output.

**Distribution**

This is another way of saying: professional selling. A stock is under distribution when volume expands on days when price moves down.

**Dividend**

A dividend is a portion of a company's profit paid to common and preferred shareholders. A stock selling for \$20 a share with an annual dividend of \$1 a share yields the investor 5 percent.

**Dow Jones Industrial Average**

This is the best known U.S. index of stocks. It contains 30 stocks that trade on the New York Stock Exchange. The Dow, as it is called, is a barometer of how shares of the largest U.S. companies are performing. There are thousands of investment indexes around the world for stocks, bonds, currencies and commodities.

**Duration**

A measure of a bond price's sensitivity to a 100-basis point change in interest rates. A duration of 8 would mean that, given a 100-basis point change up/down in rates, a bond's price would move up/down by 8%.

## **E**

### **Earnings per share (EPS)**

EPS, as it is called, is a company's profit divided by its number of shares. If a company earned \$2 million in one year had 2 million shares of stock outstanding, its EPS would be \$1 per share.

### **Eurodollar**

This is an American dollar that has been deposited in a European bank. It got there as a result of payments made to overseas companies for merchandise.

### **Ex-dividend**

This literally means "without dividend." The buyer of shares when they are quoted ex-dividend is not entitled to receive a declared dividend.

## **EDGAR**

The Securities & Exchange Commission uses Electronic Data Gathering and Retrieval to transmit company documents to investors. Those documents, which are available via DBC's Smart Edgar service, include 10-Qs (quarterly reports), 8-Ks (significant developments such as the sale of a company unit) and 13-Ds (disclosures by parties who own 5% or more of a company's shares).

## **Exchange**

There are three main U.S. stock exchanges on which securities are traded. AMEX is the American Stock Exchange. NASDAQ is the National Association of Securities Dealers. NYSE is the New York Stock Exchange.

## **F**

### **52 Week High**

This is the highest price that a security has traded at during the last 52 weeks.

### **52 Week Low**

This is the lowest price that a security has traded at during the last 52 weeks.

**Federal funds rate**

This is the interest rate that banks with excess reserves at a Federal Reserve district bank charge other banks that need overnight loans. The Fed Funds rate, as it is called, often points to the direction of U.S. interest rates.

**Float**

The so-called float is the number of shares of a security that are outstanding and available for trading by the public.

**Futures contract**

This is an agreement that allows an investor to buy or sell a commodity, like gold or wheat, or a financial instrument, like a currency, at some time in future. A future is part of a class of securities called derivatives, so named because such securities derive their value from the worth of an underlying investment.

**G**

**GAAP (General Accepted Accounting Principles)**

Conventions, rules and procedures that define general accounting practice, including broad guidelines as well as detailed procedures.

**Growth stock**

The stock of a company whose business is considered recession-resistant and also possesses an above-average growth rate.

**H**

**High price**

This is the day's highest price of a security that has changed hands between a buyer and seller.

**I**

**Initial public offering**

An IPO is stock in a company that is being traded on an exchange for the first time. Investors first read a prospectus that describes the potential of the company and the risks of investing in it.

**Insiders**

These are directors and senior officers of a corporation — in effect those who have access to inside information about a company. An insider also is someone who owns more than 10 percent of the voting shares of a company.

**J**

**Junk bond**

A bond with a speculative credit rating of BB or lower is a junk bond. Such bonds offer investors higher yields than bonds of financially sound companies. Two agencies, Standard & Poor's and Moody's Investor Services, provide the rating systems for companies' credit.

**K/L**

**Last**

This indicates the most recent trade of a security.

**LEAP**

A LEAP is a long-term option contract for a company's stock. They usually run for one year or more and are available on several U.S. exchanges.

**Limit order**

Investors can place an order to buy or sell securities at a set price. The trade can take place only at that price or a lower one.

**Long**

Investors who go "long" simply own stock or another security. It is a term that means the opposite of "short," in which investors are short a stock or security because they have borrowed it and sold it to someone else.

**Low price**

This is the day's lowest price of a security that has changed hands between a buyer and a seller.

## **M**

### **Margin**

This allows investors to buy securities by borrowing money from a broker. The margin is the difference between the market value of a stock and the loan a broker makes.

### **Market Cap**

This is the company's market capitalization. If a company has 10 million shares and the company's shares are selling for \$10, the market cap is \$100 million.

### **Market order**

This is an order to buy or sell a security at the current trading price.

### **Momentum**

The rate of acceleration of an economic, price or volume movement. An economy with strong growth that is likely to continue is said to have momentum.

### **Money market**

Money markets are for borrowing and lending money for three years or less. The securities in a money market can be U.S. government bonds, Treasury Bills and commercial paper from banks and companies.

### **Money Supply**

The stock of money in the economy, consisting of currency in circulation and deposits in checking and savings accounts. M1, M2 and M3 represent money and near-money.

### **Moving average**

A moving average is an average of a security's price over a specific time period. The average changes, for example, on a 30-day moving average, so that it includes the most current 30 trading days. Moving averages often indicate levels of support or resistance for a security.

### **Municipal bond**

State or local government offer muni bonds, as they are called, to pay for special projects such as highways or sewers. The interest that investors receive is exempt from some income taxes.

**Mutual fund**

Mutual funds are pools of money that are managed by an investment company. They offer investors a variety of goals, depending on the fund and its investment charter. Some funds, for example, seek to generate income on a regular basis. Others seek to preserve an investor's money. Still others seek to invest in companies that are growing at a rapid pace. Funds can impose a sales charge, or load, on investors when they buy or sell shares. Many funds these days are no load and impose no sales charge.

**N**

**Net asset value**

Listed as NAV in mutual fund listings, net asset value is the market value of a fund's shares. It is calculated at the close of trading.

**Net Change**

This is the difference between a day's last trade and the previous day's last trade.

**Net Profit**

This is the difference between the total price you paid for a security, with the brokerage commission you paid, and the current value. It will show either a profit or a loss.

**Number of Shares**

This is the number of stock shares that a company has outstanding.

**Notes**

Enter here important notes, such as your reason for buying or selling a security.

**NYSE Beta Index**

The beta is the covariance of the stock in relation to the rest of the stock market. The Standard & Poor's stock index has a beta coefficient of 1. Any stock with a higher beta is more volatile than the market. Any with a lower beta does the reverse.

## **O**

### **Open**

The price at which a security opens the trading day. Generally, the opening price reflects the previous day's close — unless extraordinary news or demand to buy or sell have occurred before the market opens.

### **Open-end mutual fund**

A fund that sells its shares at net asset value is an open-end fund. It creates shares as investors demand them. Investors buy the shares at their market price. Most mutual funds are open-end funds. Those that aren't are closed-end funds that sell a fixed number of shares to investors.

### **Open order**

An open order is any order to buy or sell securities that has yet to be executed.

## **Options**

These contracts give the holder the right to buy or sell securities at a set price or a set period of time. Investors often use them to protect, or hedge, an existing investment. An option is part of a class of securities called derivatives, so named because these securities derive their value from the worth of an underlying investment.

### **Over-the-counter**

The O-T-C market is for securities not listed on a stock exchange.

## **P**

### **Pay Date**

The date on which a declared stock dividend or a bond interest payment is scheduled to be paid.

### **Percent Change**

This calculates the percentage change in the price of a security from the previous trading day's closing price.

**Percent Profit**

This is your profit or loss expressed as a percentage of your original investment and including the cost of your brokerage commission. If you bought 1,000 shares of a stock at \$10, paid a \$100 commission and saw the shares rise to \$14, your percentage would be 39.6 percent.

**Preferred shares**

Preferred shares give investors a fixed dividend from the company's earnings. And more importantly: preferred shareholders get paid before common shareholders.

**Premium**

This generally refers to extra money an investor is willing to pay to buy or sell something. For a bond, a premium is the amount for which the security sells above its par value. For a stock, a premium is the amount that a security's price exceeds those of its peer group, or comparable stocks.

**Previous**

This is the closing price of a security from the previous trading day.

**Prime Rate**

The interest rate banks charge, determined by market forces affecting a bank's cost of funds and the rates the borrowers will accept. This rate tends to become standard for the banking industry when a major bank raises or lowers its rate.

**P/E**

A stock has a price-to-earnings ratio: the share price divided by earnings per share for the company's most recent four quarters. A projected P/E divides the share price by estimated earnings per share for the coming four quarters.

**Put option**

This security gives investors the right to sell fixed number of shares at a fixed price within a given time frame. An investor, for example, might wish to have the right to sell shares of a stock at a certain price by a certain time in order to protect, or hedge, an existing investment.

**Q/R**

**Reaction**

This term has been around as long as the stock market itself and is used to describe a short-term drop in prices.

**Real time**

A real-time stock, bond, option or futures quote is one that reports the most current price available when a security changes hands. A delayed quote shows a security's price 15 minutes and sometimes 20 minutes after a trade takes place.

**Record Date**

The date on which a shareholder must officially own shares in order to be entitled to a dividend. After the date of record the stock is said to be ex-dividend.

**Relative Strength**

Stocks which have been strong relative to all other stocks should continue to be relatively stronger in the future and securities which have been relatively weak tend to continue to be weaker.

**Return on equity**

Return on equity measures the return, expressed as a percentage, earned on a company's common stock investment for a specific period. It is calculated by common stock equity, or a company's net worth, into net income. The calculation is performed after preferred stock dividends and before common stock dividends. The figure shows investors how well — how effectively — their money is being used by managers.

**S**

**Securities & Exchange Commission**

The SEC is a federal agency that regulates the U.S. financial markets.

**SEC EDGAR**

The Securities & Exchange Commission uses Electronic Data Gathering and Retrieval to transmit company documents to investors. Those documents, which are available via DBC's Smart Edgar service, include 10-Qs (quarterly reports), 8-Ks (significant developments such as the sale of a company unit) and 13-Ds (disclosures by parties who own 5% or more of a company's shares).

**Security**

This piece of paper proves ownership of stocks, bonds and other investments.

**Sell Price**

Enter here the price you received when you sold a security. If you received \$10 for a share that you sold at 10, then enter 10.

**Settlement date**

In U.S. financial markets, an investor must pay for the purchase of shares by the third business day after he or she buys securities. And an investor must deliver an investment that he or she has sold by the third business day after the transaction.

**Shareholders' equity**

This is a company's total assets minus total liabilities. A company's net worth is the same thing.

**Shares**

Enter here the number of shares you own. If you bought shares of a specific security at different times and various prices, enter the total number of shares here and enter the average price for the purchases under Buy Price.

**Short sale**

Investors who borrow stock and sell it to someone else are betting the shares go down in price. Then, they can buy back the stock at a lower price and pocket the difference as profit. Going "short" is the opposite of going "long," or owning shares for the long haul.

**Short interest**

This is the total number of shares of a security that investors have sold short — borrowed, then sold in the hope that the security will fall in value. An investor then buys back the shares and pockets the difference as profit.

**Special**

CBS MarketWatch's portfolio and multiple quote pages offer special buttons that give users the choice to do more research. N = News - This function searches news sources including CBS MarketWatch and Reuters for news pertaining to the ticker symbol selected. S = SEC filings. E = Earnings information from Zacks. H = Hoover's capsules. M = MarketGuide. F = Fundamentals, such as price-earnings ratios and 52-week highs and lows. C = 180 day Chart. FP = Mutual Fund profiles.

**Spinoff**

A company can create an independent company from an existing part of the company by selling or distributing new shares in the so-called spinoff.

**Split**

Sometimes, companies split their outstanding shares into larger number of shares. If a company with one million shares did a two-for-one split, the company would have two million shares. An investor, for example, with 100 shares before the split would hold 200 shares after the split. The investor's percentage of equity in the company remains the same.

**Spread**

This is the gap between bid and ask prices of a stock or other security.

**Stock ticker**

This is a lettered symbol assigned to securities and mutual funds that trade on U.S. financial exchanges.

### **Symbol**

This is the ticker symbol of the security. New York Stock Exchange and American Stock Exchange tickers, for example, are three or fewer letters. Example: Ford is F. Nasdaq tickers are four and sometimes five letters. Example: Data Broadcasting Corp. is DBCC. Mutual Fund tickers end with the letter "X." Options tickers have their own help tables.

### **T**

#### **Tick**

This refers to a change in the price of a security. An uptick occurs when the last trade in a security takes place at a higher price than the prior trade. A downtick occurs when the last trade in a security takes place at a lower price than the prior trade. An indicator may be fashioned from the difference between the number of NYSE issues showing upticks on the last trade and the number of NYSE issues showing downticks on the last trade. This indicator is known as the TICK, and is found on many quote screens. A TICK of +236 means 236 more NYSE issues last traded on upticks than those trading on downticks.

#### **Trade sizes**

On most trading screens, investors can see the amount of stock available for buyers and sellers. In a stock with a bid price of 18 and an ask price of 18 1/2, for example, a trade size of 10x5 indicates that investors have bids in to buy 10 blocks of 100 shares at the price of 18. Sellers, on the other hand, are willing to sell five blocks of 100 shares at 18 1/2.

#### **Trading halt**

Trading of a stock, bond, option or future contract can be halted by an exchange while news is being broadcast about the security.

#### **Triple-Witching**

This occurs on the third Friday of March, June, September and December when futures and stock options, based on the S&P 500 index, all expire on the same day.

**Turnover (Securities)**

The volume of shares traded as a percentage of total shares listed on an exchange during a period, usually a day or a year. The same ratio is applied to individual securities and the portfolio of individual or institutional investors.

**U**

**U.S. Treasury bill**

U.S. government debt with a maturity that is less than a year is a bill.

**U.S. Treasury bond**

U.S. government debt with a maturity of more than 10 years is a bond.

**U.S. Treasury note**

U.S. government debt with a maturity of one to 10 years is a note.

**V**

**Value**

This is the current price of the security multiplied by the number of shares you own. If you own 1000 shares of Apple Computer, and the shares are selling for \$25, the value should be \$25,000.

**Value stock**

A stock perceived by the marketplace to be undervalued based on criteria such as its price-to-earnings ratio, price-to-book ratio, dividend yield, etc.

**Volatility (Historical)**

This describes the fluctuations in the price of a stock or other type of security. If the price of a stock is capable of large swings, the stock has a high volatility. The pricing of options contracts depends in part on volatility. A stock with high volatility, for example, commands higher prices in the options market than one with low volatility. Volatility may be gauged by several measures, one of which involves calculating a security's standard deviation. Stock investors sometimes prefer to measure a stock's volatility versus that of an index, such as the Standard & Poor's 500 Index.

This is known as a stock's beta. A beta of 1.2 implies a stock that is 20% more volatile than the S&P 500. When the S&P rises 10%, the stock is expected to rise 12%.

**Volume**

This is the daily number of shares of a security that changes hands between a buyer and a seller.

**W**

**Warrant**

This piece of paper gives an investor the right to purchase securities at a fixed price within a fixed time span. Warrants are like call options, but with much longer time spans — sometimes years.

**X/Y/Z**

**Zero coupon bond**

Such a debt security pays an investor no interest. It is sold at a discount to its face price and matures in one year or longer.



## **Appendix C: Book Resources**

Whether you're a Baby Boomer considering retirement, a senior still in the workforce, or a retiree enjoying your leisure time, it's important to manage your assets and plan your financial future.

Here's a list of books that focus on financial issues that are important for older adults.

Live It Up Without Outliving Your Money!, by Paul Merriman  
Ten Steps To a Perfect Retirement Portfolio

Live Long & Prosper!, by Steven G. Vernon  
Invest in Your Happiness, Health, and Wealth for Retirement and Beyond

Social Security, Medicare & Government Pensions, by Joseph L. Matthews and Dorothy Matthews Berman  
Get the Most Out of Your Retirement and Medical Benefits

Living Well In Retirement, by Cynthia Yates  
Prosper Without A Paycheck, Feel Great Mentally And Physically,  
Realize Your Dreams

Money to Last a Lifetime, by Lois Fishman  
The Road to a Comfortable Retirement and Beyond

I'm in Debt, Over 40, With No Retirement Savings. Help!, by John L. White  
How to Get Out of Debt and Start Saving for Retirement Now

Re-tire With A Dash, by Alan Roadburg Ph.D.  
The Secret To Retirement Happiness

*Ken Mahoney*

The New Rules Of Retirement, by Robert C. Carlson  
Strategies For A Secure Future

Landing A Smooth Retirement, by Ullmann

The Retirement Guide, by John A. Page, Jill O'Donnell and Graham  
McWaters  
A Comprehensive Handbook On Aging, Retirement, Caregiving And  
Health: How To Plan And Pay For It

Finances After 55, by Sylvia Lim  
Make the Transition from Income-Based Living to Retirement Living

Retirement Countdown, by David Shapiro  
Take Action Now to Get the Life You Want

The 7 Strategies for a Successful Retirement, by Scott Magnacca  
Planning to Win, Protecting What You Have, and Building What You  
Will Need

How Much Is Enough?, by Diane Lynn McCurdy  
Balancing Today's Needs With Tomorrow's Retirement Goals

The Do It Right Retirement Guide, by Michael Dallas  
Safety Net Strategies for Your Best Years

Start Where You Are, by Ruth L. Hayden  
Retirement Planning in a Changing World

Destination: Retirement, by Craig Smith and Anita Jay  
More for Today, More for Tomorrow: A Step by Step Guide for the  
Saturday Morning Planner

*Now What? A Guide to Retirement During Volatile Times*

Retirement Planning, by Margaret Jasper and Joan F. Banks

In addition to finances, many people struggle with the emotional and health aspects of retirement. For a list of resources that will help you stay healthy and happy longer, see Books on Healthy Retirement. You'll find useful information to make the most of your retirement years.



## **Appendix D: Intergenerational Workforce Resources**

Workforce Crisis: How to Beat the Coming Shortage of Skills and Talent; Dychtwald, Erickson, and Morison, Harvard Business School Press, April 2006

The 2010 Meltdown: Solving the Impending Jobs Crisis; Edward E. Gordon, Praeger, 2005

AARP, Boomers Policy & Research,  
<http://www.aarp.org/research/reference/boomers/>

“Labor Market Imbalances: Shortages, or Surpluses, or Fish Stories?”; Richard B. Freeman, Boston Federal Reserve Economic Conference - “Global Imbalances – As Giants Evolve”, Chatham, Massachusetts, June 14-16, 2006

ICDC 06 slides @ [www.ieee-or.org/pace](http://www.ieee-or.org/pace)







This book shows you how to make the most of your nest egg during these difficult times. More than that, this book will help you factor in other considerations--for example, your lifestyle, goals, and much more.

Now What? A Guide to Retirement during volatile times

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