



# Retirement Resource Guide

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## Pre-Retirement Checklist

Do not wait until the last minute to start planning for your retirement. What follows is a list of nine things you can do prior to retirement that will make your golden years shine.

### The Checklist

- 1. Pay off your mortgage and any other debt:** Reduced debt will ease your stress in retirement. Open a home equity line of credit to provide access to tax-deductible credit when and if you need it.
- 2. Coordinate with your spouse:** Discuss what your vision of a perfect retirement looks like. Don't wait until you have retired to find out your spouse wants to continue working or expects you to continue working.
- 3. Determine what your vision is for your retirement:** Do you just want to relax? Do you want to spoil your grandchildren rotten? Would you like to see the world or spend your days playing the world's best golf courses? Your vision will determine your budget in retirement.
- 4. Create a realistic retirement budget:** Common wisdom says you won't spend as much money in retirement as you do during your working years. That may be true if your idea of retirement is sitting on your porch drinking lemonade. However, if you intend to have an active retirement, you may need as much money or more than when you were working.
- 5. Assess the resources available to fund your retirement:** When are you able to draw your pension? Is your 401(k) fully vested? What will your Social Security benefit amount be? How much money do you have in your IRA?
- 6. Test drive your retirement:** Take a two-week vacation and act like you are retired. You may realize that sitting around the house drinking lemonade is not as fulfilling as you thought it would be.
- 7. Assess your asset allocation:** Assuming you have saved enough for retirement, your money should probably be in more conservative investments than it was when you were years away from retirement. With retirement right around the corner, you don't have time to weather a correction in the market.
- 8. Determine how you will cover health care costs:** If you are younger than 65, you will have to provide your own health care insurance or remain on your employer's plan or the plan of your spouse's employer. Upon attaining age 65, you are able to enroll in Medicare. However, there are some medical expenses that may not be covered by Medicare. You may, therefore, want to look for a Medigap insurance policy to cover those additional expenses.
- 9. Protect yourself and your assets with long-term care insurance:** Most of the costs associated with nursing home stays are not covered by Medicare. The average cost of a nursing home room in the United States is \$70,080 per year, or \$192 per day. Without long-term care insurance, you may have to pay for nursing home expenses out of pocket until you spend down your assets to as little as \$2,000. Long-term care insurance is designed to cover many of the expenses associated with nursing home care and to provide protection against having to drain your savings to receive the services you need.

### Resources

- AARP: [www.aarp.org](http://www.aarp.org)
- Social Security Administration: [www.ssa.gov](http://www.ssa.gov)
- Medicare.gov: [www.medicare.gov](http://www.medicare.gov)
- HealthCare.gov: [www.healthcare.gov](http://www.healthcare.gov)
- Internal Revenue Service: [www.irs.gov](http://www.irs.gov)
- U.S. Department of Labor: [www.dol.gov](http://www.dol.gov)

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# Saving for Retirement

The thought of not having to work and living the relaxed life of a retiree is a pleasant one. However, planning for your retirement requires setting effective strategies early, especially when it comes to saving money. You can help ensure future comfort and peace of mind by exploring all of your investment options and disciplining yourself to save now.

## The Importance of Starting Early Retirement

It is difficult to determine exactly how much money you will need at retirement. Some experts recommend saving 80 percent of your current annual income for every year you plan to spend in retirement. Other financial planners recommend investing at least 5 percent to 10 percent of your annual earnings toward retirement.

However, one thing is certain: the earlier you begin to invest, the better chance you have of accumulating enough money to live the way you want when it is time to retire. Thanks to compounded earnings that grow over the years, your invested money can work hard for you, provided that you put your dollars into the right kinds of investment vehicles long before retirement.

To demonstrate how important it is to start saving early, consider that investing only \$100 a month at an 8 percent rate of return starting at age 35 can net you more than \$149,000 if you retire at age 65.

However, if you wait until age 55, \$100 a month at 8 would earn you only around \$18,294.60 by retirement age.

## How to Invest

The way you invest your money for retirement is a very personal decision.

It is important to realize that any type of investment carries risk, either the risk that you could lose money or the risk that your money will not grow at a rate great enough to keep pace with the rate of inflation (currently between 2 to 3 percent).

Some investment vehicles are riskier than others. You may not have the patience or the tolerance to put your money into higher risk investments, which can fluctuate widely in value.

Conversely, conservative, low-risk investments like certificates of deposit may frustrate you with their lower rates of return.

Experts recommend creating an investment portfolio that features a diversity of investment vehicles: a combination of different high-risk, moderate-risk and low-risk investments.

Significant losses by an aggressive-risk vehicle can thus be offset by gains earned by other investments in your portfolio. Age also should be considered when choosing among investment-risk types.

Many financial planners encourage younger retirement investors (e.g., ages 20 to 35) to invest more in higher-risk vehicles, which can reap a relatively high rate of return (e.g., 10 to 15 percent) over the long span of years until they retire.

People in their 50s, however, may wish to buy into more low- to moderate-risk investment vehicles, being that they have fewer years until they retire and thus less time to recoup any losses incurred by more aggressive investments.

There are many types of investment vehicles to choose from, including:

- **Savings accounts.** A safe investment protected up to \$250,000 by the FDIC, but with a relatively low rate of return (often less than 1 percent).
- **Certificates of deposit.** Protected like savings accounts, but at only a slightly higher fixed rate (e.g., 2 percent over three years).
- **Money-market accounts.** Same benefits as above and a slightly higher return rate, but usually with more restrictions.
- **Bonds.** An investment that allows you to “loan” money to the government or a corporation for a set number of years in exchange for paid interest.
- **Stocks.** A riskier but potentially more rewarding investment that allows you to buy shares (partial ownership) in a company.
- **Mutual funds.** Each fund is a diversified pool of investments (e.g., stocks, bonds, cash, etc.) supervised by professional fund managers. Each fund varies in risk from low to high.

## Investment Plans

- **Traditional IRAs:** Many people opt to invest their retirement savings in traditional Individual Retirement Accounts (IRAs). The maximum contribution is the lesser of \$5,000 or the amount of earned income. You may make a tax deductible contribution to an IRA if you are not an active participant in an employer-sponsored plan. If you are in an employer-sponsored plan, you may still contribute to an IRA. However, if your income exceeds \$59,000 (\$95,000 for married couples filing jointly), phase-outs apply. Contributions are tax deductible and earnings accumulate tax-free. Withdrawals are taxed at ordinary income rates in the year of withdrawal.
  - **SIMPLE IRAs:** A SIMPLE (Savings Incentive Match Plan for Employees) IRA is offered to workers of tax-exempt companies or governmental employers that have no more than 100 employees earning at least \$5,000 a year. You may contribute up to \$12,000 a year and your employer can match those contributions up to certain amounts.
  - **Spousal IRAs:** If you are covered by a qualified retirement plan, you may be able to contribute to your spouse's IRA and deduct your contribution if your combined adjusted gross income does not exceed \$178,000. Other restrictions apply.
  - **Roth IRAs:** These vehicles are popular because they allow you to receive tax-free earnings if certain conditions are met. The maximum contribution is \$5,500. Anyone with adjusted annual gross income of less than \$127,000 (\$188,000 for married couples filing jointly) may contribute. The initial contribution has no tax effect. Withdrawals made after reaching age 59 1/2 are tax-free if the IRA has been in existence for over five years. A traditional IRA can be converted to a Roth IRA. The amounts converted are taxable at ordinary income rates, although no penalties apply.
  - **Employer-sponsored 401(k) plans:** If your employer offers one, experts recommend joining a 401(k) plan, which allows your contributions to be tax deductible and your earnings to accumulate tax-free. Your employer may also contribute matching funds as a percentage of your salary (e.g., your employer matches 50 percent of your contributions up to 3 percent of your salary). The maximum contribution is the lesser of 15 percent of earned income, \$17,500 per year or limits stated in the plan. The employer's plan will state the eligibility requirements to join the plan. To participate, you usually must be over age 18, a full-time employee and have been employed a designated period of time not to exceed one year. Withdrawals after age 59 1/2 are taxed at ordinary income rates in the year of withdrawal.
  - **SIMPLE 401(k) plans:** A SIMPLE (Savings Incentive Match Plan for Employees) 401(k) works like a SIMPLE IRA in that it allows employers with no more than 100 employees earning a minimum of \$5,000 for the preceding year to offer tax-deferred retirement-savings vehicles to workers. You can contribute up to \$12,000 a year, and your employer usually is required to match these monies up to certain levels.
  - **403(b) plans:** These work like 401(k) plans, but are only offered to employees of public education systems, charitable organizations, not-for-profit hospitals and certain other institutions.
  - **Annuities:** Money put into a deferred annuity is taxable, but the earnings are tax-deferred for individuals until payouts begin at retirement. Choose from either a fixed (set initial interest rate) or variable (fluctuating earnings) annuity vehicle. Banks and other financial institutions offer annuity options.
- Whatever investment vehicles and plans you choose, be sure to research them well and compare return rates and benefits among other options.
- Monitor the performances of investments closely, and do not be afraid to move your money into better performing vehicles. Also, avoid dipping into your retirement savings early, which will incur taxes and possible penalties.

## Resources

- The United States Social Security Administration: [www.ssa.gov](http://www.ssa.gov)
- Vanguard Index 500 Fund: [www.vanguard.com](http://www.vanguard.com)
- Retirement Planner: [www.ssa.gov/retirement](http://www.ssa.gov/retirement)
- Internal Revenue Service: [www.irs.gov](http://www.irs.gov)
- United States Department of Labor: [www.dol.gov](http://www.dol.gov)
- IRA Online Resource Guide: [www.irs.gov/retirement/article/0,,id=137320,00.html](http://www.irs.gov/retirement/article/0,,id=137320,00.html)

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# Estimating Your Retirement Nest Egg

Retirement has changed dramatically over the last 30 years. In the early 1970s, one retired, drew a pension, and received Social Security benefits for four or five years before passing on. Today, retirees are healthier, live longer and are more active, so it is not unusual for people to spend 25 or more years in retirement. This makes planning for retirement more important than ever before.

While everyone wants a long, fulfilling retirement, there are some problems that develop because of better health and longer life spans. While it was easy to put away enough money to cover the cost of four or five years of retirement, it is much more challenging to plan and save for an active retirement that may be significantly longer. The information below can help you plan ahead for a sound financial retirement.

## Envision Your Retirement Lifestyle

If you have spent much time thinking of retirement, you probably have asked yourself, "How much will I need to have saved before I can retire?" It is a big question with many factors. For instance, the amount you need may be lower if you will receive government benefits, such as Social Security or a pension. Alternatively, your government benefits might be very low, requiring you to provide more of your retirement income than you otherwise would have. In any case, it can be intimidating to calculate how much you will need for the future.

To start planning, first determine how you want to spend your retirement. You may envision retirement as leisure on a tropical island, as time to improve your golf game, or maybe as a spot next to the lake so you can go fishing. The key to achieving a satisfying retirement is to know what you want.

## Calculate the Cost of Your Desired Lifestyle

Once you determine how you want to spend your retirement years, you will need to estimate what it will cost to live that lifestyle today. Obviously, if you are planning on extensive travel, your retirement expenses will be much higher than if you plan on staying in your current home and just taking it easy. An easy rule of thumb is that you will need about 70 percent of your current income, annually, to maintain your current standard of living.

The worksheet below will help you develop a rough estimate of how much you will need to fund your retirement. To make the calculation easier, we have simplified the process as much as possible. The assumed rate of return is 7 percent, which is substantially lower than the 10.23 percent, 10-year return of an historical portfolio made up of 50 percent stocks and 50 percent bonds (using the Vanguard Index 500 Fund and the Vanguard Total Bond Index Fund as proxies). This return is not overly aggressive, but it will allow your withdrawals to keep pace with inflation.

This calculator assumes you spend down your assets during retirement. This will keep your standard of living high, minimize required capital, and may allow you to leave substantial assets to your heirs or to increase your standard of living if your actual investment return exceeds 7 percent.

To use the worksheet, follow these steps:

1. Enter your current estimated annual expenses on line A. Next, on line B, enter the number of years until you retire.
2. For line C, refer to the Social Security benefits statement that you should receive in the mail about three months before your birthday. Use the number for normal retirement age to estimate your Social Security benefits.
3. If you have a pension, you will need to examine the documents detailing your currently accrued benefits. Record this number on line D. You also should check to see whether your pension benefit will increase by the cost of living.
4. Next, in the Inflation Factor Table, find the factor that matches up with the number you entered on line B. Multiply this number by the number on line A, and record on line E.
5. Line F is the sum of your Social Security benefit and any pension benefit you may have multiplied by the inflation factor. If your pension does not increase by the rate of inflation, multiply your Social Security benefit by the inflation factor, and then add in your pension benefit.
6. Subtract line F from line E. This gives your annual spending requirement during retirement that is not covered by pension and Social Security benefits. Record this on line G.

7. Finally, multiply the number on line G by 18.15, the annuity factor for 25 years with a 7 percent return and 4 percent inflation. This is approximately how much you will need at retirement to provide the inflation-adjusted income you entered on line A for a 25-year retirement.

You should be aware that these calculations involve spending down your retirement assets. If your return is higher than 7 percent during retirement, you may wish to increase your annual spending, or you may be able to leave assets to your heirs. Now that you have some idea of how much you need, you can start planning to achieve it.

## Retirement Capital Needs Worksheet

A. Estimated Annual Expenses

B. Years to Retirement

C. Social Security Benefits

D. Pension Benefits

\*1. Round to nearest multiple of 5

\*2. Combined annual amount for both spouses, if married

**Inflation Factor Table**

Years to Retirement	Inflation Factor	Years to Retirement	Inflation Factor
5 years	1.22	25 years	2.67
10 years	1.48	30 years	3.24
15 years	1.80	35 years	3.95
20 years	2.19		

E. Amount needed in first year of retirement (A x inflation factor)

F. Sum of Social Security and pension benefits (C + D) x 3 (inflation factor)

G. Annual additional need (E - F)

H. Total need (G x 18.15)

\*3. Some pensions do not increase to adjust benefits to the cost of living. If your pension does not periodically increase benefits, multiply only SSI benefits by the inflation factor, then add current pension benefits.

## Resources

- Social Security Administration: [www.ssa.gov](http://www.ssa.gov)
- Vanguard Index 500 Fund: [www.vanguard.com](http://www.vanguard.com)
- Retirement Planner: [www.ssa.gov/retirement](http://www.ssa.gov/retirement)
- Internal Revenue Service: [www.irs.gov](http://www.irs.gov)
- U.S. Department of Labor: [www.dol.gov](http://www.dol.gov)
- IRA Online Resource Guide: [www.irs.gov/retirement/article/0,,id=137320,00.html](http://www.irs.gov/retirement/article/0,,id=137320,00.html)

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# Budgeting for Financial Success

Without a plan for financial success, it is difficult to know which decisions are the right ones to make. Creating and sticking to a budget provides you a clearer financial picture and gives you a better sense of control over your money.

To create a budget that works, follow one simple rule: Don't spend more than you earn. Some kinds of debt, such as a home mortgage loan, are unavoidable. These debts are managed through monthly payments over a set period. What you want to avoid is the kind of debt that keeps you from realizing your long-term financial dreams. For that you need a budget.

## Getting Started

To get started on your budget, you will need your pay slips, bank and investment statements, bills and credit card statements, receipts, paper and a pen. Begin by estimating monthly income and expenses to get an accurate sense of how much you are earning and how much you are spending. Here are the steps involved:

- Estimate your take-home pay by looking at the net (after-tax) amount on your pay slips. Bank statements may also be useful to measure such non-wage income as interest, dividends, etc.
- Calculate your expenditures. Include all your typical expenses, such as mortgage payments, car loans, transportation costs, utilities, child and elderly care, food and clothing, education, medical bills, car repairs, retirement savings, religious contributions, entertainment purchases and miscellaneous expenses.
- Subtract all expenditures from revenues. If you have a surplus, aim to save as much of it as possible. If you have a deficit, you need to cut expenditures. Experts recommend setting a goal of saving at least 10 percent of your earnings and having at least three months' income set aside for emergencies.

## Tips for Living Within Your Budget

- Focus on savings versus spending. Rethink your priorities.
- Evaluate your expenditures by listing them in order of priority and determine which purchases can be eliminated or reduced. Rethink big-ticket items unless you are absolutely sure they are necessary.
- Document every transaction. Create a system to file and organize your revenues and expenditures. File all receipts and bills as you process them and keep your financial records up to date.
- Computerize your efforts. Consider buying a financial management program to help you balance your accounts.
- Monitor your budget on a monthly or weekly basis to ensure you are on track and to keep you motivated.
- Pay off your credit card balance each month. When using credit cards, make an entry in your financial records for each individual charge the day the charge is made. This will prevent charge card bills from catching you without adequate cash in your bank account to cover them.
- Confide in your partner, and have your partner follow these procedures as well. Once you have created a budget to properly deal with your financial situation, you will enjoy greater peace of mind knowing exactly how you have spent your money.

## Budget Worksheet

It is important to monitor your budget on an annual, monthly or per-paycheck basis. Here is a sample of a monthly budget worksheet:

A. Revenues	Total
Take-home pay	
Interest	
Other	
Total Revenues	

  

B. Expenditures	Total
Rent/mortgage (including property taxes)	
Automobile loan payment	
Student and other loans	
Home & Auto Insurance	
Home & Auto Maintenance	
Transportation Costs	
Health Care	
Utilities (natural gas, electric, water, waste management, phone, cable, Internet)	
Food	
Clothing	
Gifts	
Retirement Savings	
Other Savings	
Charitable contributions	
Subscriptions	
Memberships/clubs	
Entertainment	
Vacations	
Pocket money	
Other	
Total Expenditures	

C. Net Surplus/Deficit	Total
A minus B	

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# Understanding Social Security

In existence for more than 70 years, Social Security offers an umbrella of basic financial protection to retired workers and to workers and their families who are threatened by loss of income due to the disability or death of a wage-earning family member. More than 50 million Americans receive benefits from Social Security, and roughly 161 million workers are protected by its system.

## How the System Works

The Social Security system is based on a simple concept: The government takes a portion of the money you make during your working years to fund Social Security benefits for eligible recipients, and it rewards you with the same benefits when you retire or otherwise qualify.

To be eligible to participate in the system, you need a Social Security Number (SSN), usually obtained at birth. Your employer automatically deducts a small percentage of your earnings from your paycheck and pays it to the government as Social Security taxes. Your employer also matches Social Security and Medicare taxes withheld from your paycheck and sends these taxes to the Internal Revenue Service. Additionally, your employer reports these earnings to the Social Security Administration (SSA).

As you work and pay taxes, you earn Social Security credits, up to a maximum of four credits each year, that count toward future benefits. Typically, you will need 40 credits (10 working years) to qualify for benefits. You need fewer credits to be eligible for disability or survivor benefits if you are younger, however.

Though they are meant to supplement you or your family financially when you retire, become disabled or die, Social Security benefits are not intended to be your only source of income. A worker earning an average income usually can expect a retirement benefit that equates to about 42 percent of his or her average lifetime earnings. Retirement plans - pensions, 401(k) plans and IRAs - investments and savings probably also will be necessary to retire comfortably.

The amount of your Social Security benefits depend on your earnings averaged over the course of your working years, the benefit increase in future years as a result of inflation and the age at which you retire. The SSA first indexes your actual earnings to account for changes in average wages since the year the earnings were received. Next, it calculates your average monthly indexed earnings for the 35 years you earned the most income. It applies a formula to these earnings to determine your basic benefit (or primary insurance amount), the amount you may receive at your full retirement age. To determine how much you will be eligible to receive from Social Security at retirement, you can request a Social Security Statement online (<http://www.ssa.gov>). A detailed report of your lifetime earnings and an estimate of all benefits will be mailed to you.

## Social Security Benefits Explained

Your Social Security taxes pay for several different kinds of benefits:

**1. Retirement benefits:** Anyone with enough Social Security credits currently is eligible to receive full benefits at age 65 and reduced benefits as early as age 62. These minimum retirement ages are scheduled to rise in future years. Those who wait until they are older than 65 to retire can receive a special increase in their benefits when they do retire.

**2. Disability benefits:** Anyone who has a severe physical or mental impairment, due to a condition that may result in death, that prevents the person from doing substantial (defined as earnings of \$500 or greater per month) work for at least a year or more can qualify for these benefits, provided the person has enough credits. Incentives to ease the transition back to work, including healthcare coverage and continuation of benefits, are provided in this disability program.

**3. Family benefits:** Other family members can receive benefits, too, if you qualify for retirement or disability benefits. Stipulations include:

- Your spouse must be at least 62 years old, or under 62 but caring for a child less than age 16.
- Your children must be unmarried and under age 18, or under age 19 but still in school, or 18 or older but disabled.
- Your divorced ex-spouse may also qualify for benefits on your record.

**4. Survivor benefits:** If you accrue enough credits during your working years, some members of your family may qualify for benefits if you die. Additionally, the SSA may pay a special one-time stipend of \$225 to your spouse or minor children if you die. The family members who may be eligible for these benefits include:

- A surviving spouse age 60 or older, or age 50 or older if disabled, or of any age if caring for a child under age 16.
- Your unmarried children less than age 18, or under age 19 but still in school, or 18 or older but disabled.
- Your parents if you provided their primary means of support.
- Your divorced ex-spouse may be eligible for benefits on your record.

**5. Medicare benefits:** Medicare is America's health insurance program for senior citizens and certain disabled people that consists of:

- Part A: Hospital insurance, which helps pay for inpatient hospital care, home healthcare, skilled nursing facilities and hospice care.
- Part B: Medical insurance, which helps pay for doctors' services, outpatient care and therapies, diagnostic tests, ambulance services, medical supplies and equipment.
- Part D: Prescription drug coverage, which helps seniors pay for prescription drugs and medications.

Another benefit run by the SSA, but not financed by Social Security taxes, is Supplemental Security Income (SSI). SSI provides monthly payments to people who have little income and few assets. These levels are determined by your state of residence. The federal government pays a basic rate, to which amount some states may add extra money. To qualify as an adult or a child, you must be at least age 64 or disabled. Most individuals who qualify for SSI also are eligible for Medicaid, food stamps and other assistance. Call the SSA or check with your local Social Security office for SSI rates in your state and more details.

## Filing for Benefits

Depending on your financial situation, it may be wise to start collecting your retirement benefits before you actually stop working. For this reason and others, it is important to talk to a Social Security representative no later than the year before the year you plan to retire. To begin collecting retirement benefits, you will need to schedule an appointment to visit your local Social Security office, during which time you can file for benefits. You will need to bring documents that prove you qualify, including:

- Your most recent W-2 form
- Your Social Security card
- A birth certificate for each family member applying for benefits
- A marriage certificate if your spouse is also applying

If you ever become too disabled to work, you should file for disability or SSI benefits (or if you die, your family should be instructed to file for these benefits).

For answers to your questions about Social Security, call the SSA's toll-free hotline at 1.800.772.1213, or find information online (<http://www.ssa.gov>).

## Factors That Can Raise or Lower Your Benefits

The monthly benefit you receive from Social Security may not be the basic benefit. Your actual benefit may be higher or lower than that amount if any of the following are true:

- You receive benefits before age 65. You can begin to receive Social Security benefits at age 62, but at a reduced rate. Your benefit is reduced by roughly one-half of 1 percent for each month you get benefits before age 65. This amounts to approximately a 20 percent reduction at age 62. The closer you are to age 65 when benefits start, the smaller the reduction. For example, the reduction is 13.33 percent at age 63 and 6.66 percent at age 64.
- You receive cost-of-living increases. You are eligible for cost-of-living benefit increases starting with the year you turn 62. This is true, even if you do not get benefits until 65, or even 70. Cost-of-living increases are added to your benefit, beginning with the year you reach 62 up to the year you start getting benefits.

- You delay your retirement past age 65. A person may continue working past age 65 and not begin to receive Social Security benefits. If you choose to do this, your benefit amount will be increased by a certain percent for every month that you are past age 65 but not receiving benefits. These increases are added to your benefit automatically until you reach age 70.
- You are a government worker with a pension. If you also get or are eligible for a pension from a job where you did not pay Social Security taxes (usually a government job), the SSA applies a different formula to your average monthly earnings. To find out how your benefit is figured, call the SSA at 1-800-772-1213.

Note: There will be a 1.7 percent cost-of-living adjustment (COLA) beginning January 2015. View more COLA information online (<http://www.ssa.gov/cola>).

### Resources

- Social Security Administration: [www.ssa.gov](http://www.ssa.gov)
- Internal Revenue Service: [www.irs.gov](http://www.irs.gov)
- Medicare.gov: [www.medicare.gov](http://www.medicare.gov)

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# Social Security Retirement Benefit

Social Security is the broad term used to cover many transfer payments, services and benefits to retirees and disabled individuals and their families. The most well-known benefits are the Social Security Retirement payments provided to most workers after they reach retirement age. In addition to retirement, Social Security also provides disability and health benefits to those who are eligible, as well as providing survivor benefits to the dependents of a deceased or disabled worker.

## Who is covered by Social Security Retirement?

Almost every worker in the U.S. is covered by Social Security, although there are a few exceptions. For example, railroad employees are covered under the Railroad Retirement System and most federal workers hired before 1984 are covered by a separate Civil Service Retirement System. Some state and local government workers are covered by state or local government retirement plans instead of Social Security. Employees who do not earn enough in wages may not be covered, although they may be eligible for benefits on a spouse's earnings record. Finally, workers who have not worked enough to accumulate "40 quarters" of coverage are often ineligible for retirement benefits.

In recent years, more than 58 million individuals received some type of Social Security benefit. Of these, 37 million were retired, more than 6 million were the survivors of a deceased worker and nearly 9 million were recipients of disability benefits.

## Eligibility Requirements

In order to qualify for Social Security benefits for themselves and their dependents, workers must earn a specified number of work credits. A work credit is earned when wages for the year reach a specified amount, which is adjusted periodically. No matter how much money a worker earns, only four quarters of coverage can be earned in a given year. In general, in order to receive retirement benefits from Social Security, workers will need to have worked for at least 10 years and have earned 40 work credits or quarters of coverage.

In addition to having earned enough work credits, workers must also meet other criteria before becoming eligible for Social Security Retirement benefits. To receive retirement benefits, workers must be 62 years of age or older. Dependent spouses of a retired worker must also wait until age 62 before being able to receive retirement benefits, although there are exceptions. Children of retired, disabled or deceased workers are entitled to benefits as well, provided they meet Social Security's eligibility requirements. The local Social Security office has the most current information on eligibility requirements, or you can visit the SSA website at [www.ssa.gov](http://www.ssa.gov).

Social Security Disability Benefits are handled differently. The number of credits that workers need to have earned in order to receive disability benefits varies depending on the year in which the worker was born and the year in which he or she became disabled. For example, a worker born in 1951 who became disabled in 2001 needed seven years or 28 credits to be eligible for disability benefits. A worker born in 1976 who became disabled in 2001 needed credit for having worked half the time between age 21 and the time he or she became disabled. Other variations apply to determine dependents' eligibility for survivors' benefits.

## Full Retirement, Early Retirement and Delayed Retirement

Until recently, 65 years of age has been the standard retirement age in the U.S. With the passage of social security reform, full retirement age will gradually increase until it reaches age 67 for those born in 1960 and later. After achieving normal retirement age, a worker can retire at the full social security benefit level.

For those taking benefits before normal retirement age, the retirement benefit is reduced. The amount of the reduction depends on the year of the retiree's birth and the age at which he or she retires (starts to take benefits). The reduction remains in effect throughout the remainder of the retiree's life, although the retiree will still receive cost of living increases to their Social Security payment.

Tables are available on the Social Security Administration's website ([www.ssa.gov](http://www.ssa.gov)) showing the benefit reduction given to early retirees.

While early retirement penalizes the retiree, late retirement provides for additional retirement benefits. The Social Security benefit increases for each year past normal retirement that a worker defers retirement. A table is available on the Social Security Administration's website ([www.ssa.gov](http://www.ssa.gov)) showing the annual rate increases provided to these workers.

### How are benefits calculated?

All workers covered under Social Security receive a yearly statement showing Social Security earnings and projected benefits. Knowing how these projected earnings are calculated can keep workers from making costly mistakes. The Social Security Retirement Benefit calculation is complex. The following is a simple overview:

The Social Security Administration uses a figure called the Average Indexed Monthly Earnings (AIME), which averages a worker's earnings for the last 40 years, less the five years with the least earnings. This average then is used to obtain the Primary Insurance Amount (PIA), an amount subject to Social Security maximums that represents the full retirement Social Security benefit for the worker.

Workers who retire at the normal age who have more than five years with no recordable earnings may be entitled to a smaller Social Security payment than if the worker had simply retired at age 62 and taken the reduced Social Security benefit. Any worker planning on retiring at age 55 should take note of how the benefits are calculated, as retiring too early may force the inclusion of years with zero recordable earnings in the AIME calculation, resulting in drastically reduced retirement benefits.

Note: There will be a 1.5 percent cost-of-living adjustment beginning January 2014. View more COLA information here: <http://www.ssa.gov/cola/>

### Working During Retirement

Individuals may work while receiving Social Security Retirement benefits. Workers who receive benefits before their full retirement age may see their Social Security Retirement reduced. The amount of the reduction depends on how much the individual earns during the year.

Generally for workers taking early retirement, benefits are reduced by \$1 for every \$2 earned above a set amount. In the year the retiree reaches normal retirement, benefits are reduced by \$1 for every \$3 earned above the set amount. After achieving the full retirement age, retirees may earn unlimited income from employment without a corresponding loss in Social Security Retirement benefits.

### Are benefits taxable?

About one-third of people who receive Social Security Retirement payments are taxed on a portion of the benefit. How much of the benefit is taxable depends on filing status and combined income. Combined income is the sum of adjusted gross income (the last line on page one of form 1040) plus nontaxable interest and one-half of the social security benefit.

For single filers, 50 percent of the benefit is taxed for combined incomes between \$25,000 and \$34,000, and 85 percent of the benefit is taxed at combined incomes in excess of \$34,000. For joint filers, 50 percent of the benefit is between \$32,000 and \$44,000 and 85 percent of the benefit is taxed for joint filers with combined incomes in excess of \$44,000.

### Applying for Social Security Retirement Benefits

Social Security retirement-benefit payments are not automatic. People must apply for them. Current Social Security Administration rules allow workers to apply for benefits as many as three months before the month in which he or she wants to begin receiving them. In most cases, it is a good idea to apply in advance, as completing the application process can take some time. Retirees are not generally eligible for benefits covering any period before the month in which he or she applies or becomes eligible for benefits.

Deciding when to retire depends to some extent on considerations other than the amount of Social Security benefits the retiree will receive. Workers should consider their health, other sources of retirement income and their interest in and ability to continuing working.

### Resources

- U.S. Social Security Administration: [www.ssa.gov](http://www.ssa.gov)

Contact us anytime for confidential assistance.

# Emotionally Adjusting to Retirement

Retirement is something many working Americans look forward to. However, when it comes time to relax and enjoy retired life, it can take time to emotionally adjust to this life change. Consider these tips to help ease the emotional adjustment to retirement.

## Finding Purpose

Your job is a big part of your identity. Many people have trouble adjusting to retirement because most of their support system is aligned with their work schedule and work friends. Prior to retirement, it is wise to prepare yourself for the flurry of emotions that may arise in post-retirement life.

Ironically, one avenue that may help you regain some form of identity is the exact thing you retired from in the first place: work. Many experts recommend finding a part-time job in an area of interest. A person who enjoys woodworking or fixing things around the house, for example, may find a sense of fulfillment working part-time at a hardware or home improvement store. Working part-time can bring back those feelings of accomplishment, yet still allows you the freedom to enjoy leisure time. Many employers are thrilled to hire retired individuals because of their experience and work ethic.

If picking up a part-time job seems unappealing, taking classes at the local community college or volunteering can provide a sense of fulfillment as well. Think about what matters most to you; retirement is a time to explore one's self.

## Coping Emotionally

Some individuals go through a honeymoon period after retirement: the first month is a great, but the subsequent months are when those negative emotions start to arise. Conversely, other people may become depressed prior to retirement in anticipation of the major life change that is about to take place. Everyone experiences retirement differently, but it is important to know that sadness, depression, anxiety and grief are very common reactions.

Keeping physically fit is not only beneficial to your health, it also releases endorphins, or the "feel good" chemical in the brain, which can help you overcome the feelings of loss or sadness during this transition.

Additionally, going from having a set schedule every day to suddenly having copious amounts of free time can be jarring for many people. Consider creating a mini-schedule to give days more structure. Doing so can help you visualize how you are going to spend your time.

## Redefine Yourself

From an emotional standpoint, retirees must learn to redefine themselves. All of their working lives, people are asked what they do; identity is directly tied to an individual's career. However, now that you have retired, your identity is no longer connected to a career, but rather a former career and new state of being.

To counter the emotional consequences of identity and life purpose in retirement, retirees may find solace in activities such as:

- Gardening
- Painting
- Volunteering
- Writing books
- Woodworking

These hobbies may even evolve into a small business. Other retirees may help with extended family, including kids and grandkids, while others may hand-craft gifts such as pillows, blankets and bird houses for future family generations to enjoy.

Retirement is often synonymous with freedom from work, but often, retirees are disappointed to discover that retirement is not an instant key to happiness. Understand there are phases to retirement, and that it may take some time to fully make the emotional transition.

## Resources

- Medline Plus: [www.nlm.nih.gov/medlineplus/seniorshealth.html](http://www.nlm.nih.gov/medlineplus/seniorshealth.html)
- National Institute on Aging: [www.nia.nih.gov](http://www.nia.nih.gov)
- American Association of Retired Persons: [www.aarp.org](http://www.aarp.org)

Contact us anytime for confidential assistance.

# Tips for a Healthy and Happy Retirement

Even though a person hits retirement age, it does not always mean he or she is ready for retirement. A person faces a variety of changes and challenges during their retirement. The aim of this article is to provide a few tips current and future retirees can use to better enjoy their golden years.

## Keep Physically Fit

Regular exercise is important for everyone, including seniors. Here are some ideas for incorporating physical activity into your everyday life:

- Speak with your doctor or health care professional before beginning any new exercise routine.
- Working out can take many forms and does not have to be done in a gym. Gardening, climbing stairs or taking your grandchildren to the park are just a few examples of non-traditional workout opportunities.
- Consider taking up an activity like golf or bowling that requires some (but not a lot of) physical exertion.
- Have your spouse, significant other or a friend join you in your exercising. Having someone else to exercise with can provide you with the extra motivation you need on days when you do not feel up to physical activity.

## Keep Fiscally Fit

Financial planning is as important after you retire as it was before. Here are some ideas for keeping your financial situation sound as you progress through retirement:

- Be diligent in keeping track of your savings, IRAs, 401(k), pension, Social Security and other sources of income.
- Be aware of movement in the stock market if you still have investments in publicly traded companies.
- Make and stick to a budget that does not draw too heavily on your savings and investments.
- If you find yourself with more money than you currently need, save some of it for unexpected future expenses.

## Keep in Contact

Frequent social interaction helps keep the mind fit and active, but it can be difficult for retirees to come by. Most people no longer interact every day with their former co-workers when they retire. Others find it difficult to make new friends or to go out if they have lost a spouse or loved one. Here are some ways many retirees keep socially active:

- Stay in contact with friends, family and former co-workers through phone calls, letters or email.
- Make plans to meet friends and acquaintances for lunch or dinner each week. Volunteer with local volunteer groups, religious organizations or civic groups.
- Visit your children, or spend time with your grandchildren. Many retirees find that being around young people helps keep them young at heart.
- Travel to someplace you have never been before. Many community and private organizations sponsor trips both locally and abroad, and you can make new friends while exploring new places and cultures.

## Keep Learning

Many retired adults enjoy learning new skills or hobbies that they did not have time for in the past. Some people take classes at local community colleges or join community clubs and organizations that sponsor the activities that interest them. Here are just a few leisurely interests you can learn more about to see if they interest you:

- Fishing
- Learning to use computers
- Photography
- Playing card games
- Scrapbook making
- Sewing, needlepoint and other handicrafts
- Starting or building a collection (stamps, coins, sports memorabilia, etc.)
- Traveling

- Woodcarving
- Writing
- Yoga or meditation.

### Keep...Working?

Recent studies indicate that more than one-third of all people who retire from their careers end up taking a new job. Many people take jobs that have absolutely nothing to do with their prior careers. Others even try to go into business for themselves. Some of the reasons people like to work during their retirement include:

- They enjoy the extra money
- The job provides good medical benefits
- They make new friends
- They get to do something they always wanted to do
- They enjoy the personal satisfaction they feel from a job well done.

### Resources

- U.S. Office of Personnel Management: [www.opm.gov](http://www.opm.gov)

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