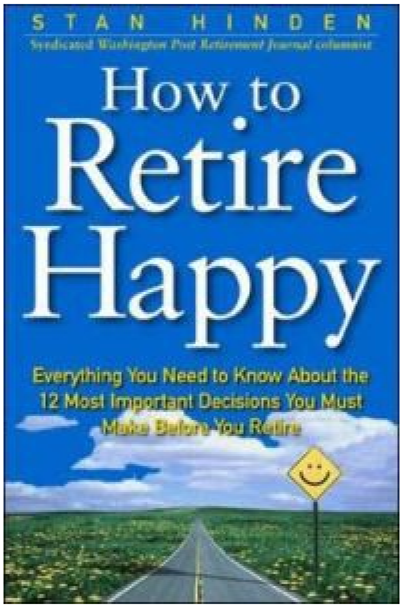

Book How to Retire Happy

Everything You Need to Know About the 12 Most Important Decisions You Must Make Before You Retire

Stan Hinden
McGraw-Hill, 2001

Recommendation

Stan Hinden provides answers (or shows you where to get the answers) to the major questions you face upon retirement in the United States: Are you ready to retire? Can you afford to? What will Social Security and pensions provide? How do you deal with company savings plans and IRAs? How should you invest? What do you do about health insurance or preparing for serious illness? How do you decide where to live? Hinden warms his factual text with slightly saccharine stories about how he and his wife prepared for retirement, so you might have to be in the mood. His generally simple, clearly written book is directed toward a general audience, so some of the advice about financial planning, Social Security and pensions may be targeted more to mid-level managers or employees. *BooksInShort.com* cautions that those with lofty incomes may need loftier advice, but otherwise this is a solid introduction to retirement. (And we didn't really mind the syrupy stories.)

Take-Aways

- To make the best of your retirement, plan now.
- Many tax-deferred savings plans and government programs facilitate retirement.
- Good reasons to retire include deciding that you've got more compelling things to do and knowing when your job is changing beyond acceptability.
- Examine your income and expenses to decide if you can afford to retire.
- Save through a 401(k) plan at work.
- Put as much money in your company's 401(k) plan as you can, since it is tax deferred and your employer contributes.
- You can receive Social Security at age 62, but you get more if you wait until full retirement age (65 to 67).
- Focus your post-retirement investments on growth, income or a combination of the two.
- Apply for Medicare and buy a "Medigap" supplemental policy.
- For a healthy retirement, start living a healthy lifestyle now.

Summary

Long Lives, Long Retirements

Retirement in America has changed greatly in the last few decades, because people are living longer. Many people are looking into starting a second career. Retirement is facilitated by tax-deferred savings plans and government-sponsored income and health programs. To make the best of your retirement, start planning. Ask yourself questions about your future goals to decide on the best retirement approach for you.

> "If you want your journey into retirement to be successful, you must do two things: First, equip yourself with the information you'll need on your journey into the world of Social Security, Medicare, Medigap, long-term care, pensions and 401(k) plans. Second, decide what you want to do in retirement."

First, ask if you are ready to retire. Consider all the pros and cons, depending on your age, health, family, the nature of your job, your financial situation and your outlook on life. Whatever your situation, for a successful retirement, first become fully informed about the various financial factors that will affect your retirement and decide what you want to do once you retire.

Should You Retire?

There are at least three good reasons to retire:

- The time is right - You have worked hard all your life, you've met the challenges successfully and you feel that it's time to stop working and live life your own way.
- You've got more compelling things to do - You want to spend more time with your family or do meaningful volunteer work.
- Your job is changing - Your company is in a state of flux or undergoing cutbacks, and these changes are making your work situation difficult.

> "Whatever you decide to do in retirement, your plan should have one main objective: to keep yourself mentally and physically active and in close contact with other people. That is the way to achieve a successful retirement."

Conversely, there are at least three good reasons to not retire:

- You like your work - Your job and career give you a sense of identity.
- You'll miss the people at work - If you like them enough, it may be a good reason to stay on the job.
- There's nothing else you'd rather do - So it's better to stay put.

Does Retirement Mean Inactivity?

One way to deal with uncertainty about retirement is to combine retirement and work. Increasingly, people who retire still work part time and some even work full time, since people live longer and want to stay involved and productive. Thus, the line between work and retirement is becoming fuzzier.

> "The line between work and retirement is becoming more blurred all the time. The fact is that many people who retire go back to work - some even full time."

The trend is toward more part-time retired workers as the Baby-Boom generation of 77 million people - those who were born between 1946 and 1964 - begins to retire in 2010. A Gallup survey found that 85% of Baby Boomers now plan to continue working after they have retired and a Roper Starch Worldwide study found that 80% of them plan to work at least part-time after retirement. So perhaps you can do both - retire and continue to work, whether full or part-time, at a job you enjoy.

Can You Afford to Retire?

Your next decision is whether you can afford to retire now or if you should wait until you are better positioned financially. Would your monthly income, without working, be enough to cover your monthly expenses? If you have enough money, you could retire now. If not, you have to raise your income, lower your expenses or use savings to help close the gap.

> “According to Social Security actuaries this hypothetical person would receive the most total dollars by retiring at age 65.”

When you determine costs, realize that retirement health-care costs are likely to be higher than when you were working. You will probably need to buy a secondary insurance or Medigap policy to cover some additional expenses. If necessary, include a special reserve for federal or state taxes. In some cases, your Social Security payments will be taxable. Also, before age 70 and six months, money you take out of a tax-deferred IRA will be taxable.

Are You Ready for Retirement?

Ideally, you want to make sure your retirement budget will allow you to continue your accustomed lifestyle, so you will feel comfortable after you retire. This helps make retirement a source of enjoyment and fun. If not, you may need to delay retirement and keep working so you improve your finances.

> “People are living longer and want to remain involved and productive.”

You can still make your money grow. Consider these options:

- Saving at work - Many companies offer a 401(k) plan to their employees. This is an ideal program because you contribute a regular percentage of your salary to a savings account, and your employer then matches part of your contribution, say by 50% or more. You don’t have to pay taxes on a 401(K) until you withdraw the money.
- Use a Roth IRA - This allows you to invest up to $2,000 a year. Then, after you reach 59, if you have owned it for five years, you can take out the full amount without taxes.
- A tax-efficient mutual fund - This reduces your taxes by lowering or eliminating the dividend income and capital gains taxes you would otherwise pay.

When Should You Apply for Social Security?

You need to focus on Social Security and pension-planning decisions if you expect to use Social Security and regular pension earnings to contribute to your retirement. Social Security benefits are based on your earnings and are structured to provide lower-wage earners with proportionately more, since they have had less opportunity to save and invest. Generally, Social Security payments replaced about 56% of the pre-retirement incomes of low-wage earners who retired in January 2000; high-wage earners got closer to 28%.

> “As you prepare your retirement budget, especially if you are nearing 70 1/2, remember that every dollar you withdraw from a tax-deferred IRA will be taxable.”

Age 62 is the first opportunity to retire and receive Social Security benefits, although - until 2003 - the full retirement age is 65. It will gradually rise to 67. Retirement benefits increase at the rate of 6% a year from ages 65 to 67 (depending on your circumstances) to age 70.

If you begin taking Social Security benefits at age 62, you will get more monthly payments, but with fewer dollars in each check. If you don’t take your benefits until you are 70, you will get fewer monthly checks, but with more dollars in each check.

> “At the very least, make sure that your income and your expenses allow you to have the kind of lifestyle to which you have become accustomed.”

About 59% of recipients retire at 62, 20% retire at 65 and another 21% retire after 65. These retirement benefits are based on the amount you earned during your life, especially during the 35 years when you earned the most. Monthly benefits typically range from $1,200 to $2,600, depending on your age at retirement. You can apply for benefits by phoning the Social Security administration or you can apply at your local Social Security office.

How Should You Take Pension Payments?

The two main types of pensions are the defined benefit plan, paid for by your employer, and a defined contribution plan, such as the 401(k) savings plan, to which you and your employer contribute. Your big decision is whether to take a lump-sum payment or a monthly payment. With a lump-sum payment, you have the advantage of making your own decisions on how to invest, although the downside is the temptation to spend all or some of this money. The advantage of monthly payments is knowing how much you will get each month, however pension plans are not adjusted for inflation, so you can lose purchasing power each year.

> "If your arithmetic shows that you can keep your lifestyle and also have some fun, then you can afford to retire."

Talk to the person in charge of benefits at your company. If your former company no longer exists, call the federal Pension Benefit Guaranty Corp., which will help you locate your missing pension fund. You are eligible to receive a pension if you were vested in the company's pension plan, which usually requires five years of employment.

When Should You Take Money Out of Your IRA?

If your company has a matching retirement savings plan, put in as much money as you can afford to the limit of the plan. A 401(k) plan will help you save regularly.

> "Taking a lump sum (for pension payments) enables you make your own decisions on how you want to invest your money. As a result, you may be able to draw a higher income from your investments than you would get from a monthly pension check."

If you retire and are older than 59 years and six months, you can set up an IRA rollover account with a major mutual fund. Then, your company check goes to the mutual fund. If you deposit your money like this, you avoid income taxes on the amount. Doing it directly, rather than taking the money and then giving it to a mutual fund, avoids the hassle of having to get the taxes back from the IRS.

> "A traditional IRA is a tax-deferred savings account for people who earn income. The amount you put in, together with your gains, is taxable when you begin to take money out of that account."

Avoid getting your 401(k) money back as a cash distribution, since then it is taxed at your present rate. You can also leave money in your 401(k) until mandatory withdrawal at age 70.

You do have to take your IRA money out when you are 70 or during the following year. This is your required minimum distribution. Other retirement funding plans you might consider include IRA rollover accounts, simplified employee pension plans, simple incentive match plans for employees, profit-sharing plans, money purchase pension plans, and 403(b) plans for employees of tax-exempt organizations. Find out what your company offers.

How Should You Invest After Retirement?

Calculate what you need for your retirement savings and what you can invest. Consider your financial needs, time horizon and willingness to take a risk. Discuss your goals with a financial planner or investment advisor to help you develop an investment plan and decide what to do. Possibilities include buying annuities, investing in a Treasury bond portfolio or investing in growth stocks or high-yield bond mutual funds. Of course, you have many other options for investments, as well. Begin by focusing on your purpose: Are you investing for growth, for income or for a combination of growth and income?

What about Health Insurance?

When you retire, you will lose your corporate health coverage. To provide for your future health coverage, apply for Medicare (a federal health insurance program for people 65 and older) and buy a Medigap policy. To reduce your monthly premiums, sign up for Medicare as soon as you turn 65, even if you are still working. Medigap policies can be complicated, but the most important thing is to compare premiums, since companies vary in what they charge for the same coverage. The annual premiums vary based on your age, but in some cases, all policyholders pay the same premium. Look into joining a Medicare HMO, too.

Decisions, Decisions

Other decisions confront you, and you can best cope with them by being proactive.

- Preparing for serious illness - To protect yourself against the cost of a chronic or debilitating lengthy illness, buy long-term care insurance, also called nursing home insurance.
- Deciding where you want to live after you retire - Consider your family relationships, where your friends are, where you can afford housing and where you would enjoy living.
- Arranging your estate to save on taxes and avoid probate - To avoid probate problems and reduce taxes for your heirs and beneficiaries, consult an attorney and consider setting up a revocable living trust and giving your spouse durable power of attorney.
- Aging healthy - To increase your chance of a healthy retirement, begin following a healthy lifestyle now.

About the Author

Stan Hinden writes a syndicated column, "Retirement Journal," in which he discusses the decisions, dilemmas and challenges of retirement. His column has won honors from the American University School of Communications and the Investment Company Institute for excellence in personal finance reporting. Before retiring, Hinden spent 23 years at the *Washington Post,* including a dozen years as a financial reporter and columnist.