PLANNING FOR RETIREMENT

WHAT IS RETIREMENT PLANNING?

An overwhelming majority of Americans are not expected to completely meet their financial needs in retirement. But being financially ready for retirement has nothing to do with how smart you are, how hard you work, or how much money you make. It does have to do with making the decision to plan and save for retirement.

Very simply, retirement planning requires deciding when you can retire, calculating how much money you will need to fund your retirement, and determining how you will pay for your retirement.

It means developing retirement income goals and deciding on necessary actions to achieve those goals. It includes identifying sources of retirement income, estimating expenses, starting a savings and investing program, and managing your assets and risk. One of the most important actions before you commit to retirement is to compare your retirement needs to your future income and available assets to confirm if and when you can retire successfully.

While developing your retirement plan, make sure that you don't underestimate future healthcare costs or overestimate Social Security benefits. Also, if it appears that retirement income may be a problem, consider working after retirement or delaying retirement.

DEVELOPING RETIREMENT GOALS

Development of specific retirement goals based on your retirement needs is critical to creating a sound retirement plan.

In identifying your needs and desires, consider:

- How you want to spend your retirement? What do you want to do? Start a business? Travel? Fish? Play golf? Your activities will make a big difference in how much income you will need.

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- Where you want to live? In the city? In a rural area? In the mountains? A foreign country? Consider how close you need to be to an airport, to your family members, and to medical care.
- Will you want to work? Will you be required to work? Does your spouse plan to continue working?
- How much money you will need to meet your living expenses? Your extra travel or other activity expenses?
- Where your retirement income will primarily come from—Social Security, a 401(k), IRAs, pension, etc.
- At what age you will begin taking Social Security benefits
- How many years you anticipate in retirement
- How much debt you anticipate having in retirement
- If you will be providing financial support to parents, adult children, grandchildren, etc.
- Are you interested in creating a financial legacy of some kind?

After identifying your needs and desires, establish short-, medium-, and long-range SMART (specific, measurable, achievable, relevant, timed) retirement goals. Include for each goal the:

- Target completion date
- Estimated total cost
- Cost per month to reach the goal by the target completion date
- Current balance of assets allocated to that goal

Use a table such as this one to develop your goals:

RETIREMENT GOALS					
Goal	**Target Completion Date**	**Total Cost ($)**	**Cost Per Month ($)**	**Current Balance ($)**	**Current Status**

Once you have implemented your plan, track and monitor the status of your goals. How you progress will affect your retirement plan and preparation. If you are not on track to reach certain goals, determine how you can get them back on track and modify them as necessary.

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DETERMINING HOW LONG YOUR RETIREMENT WILL LAST

As mentioned previously, you will need to have a good idea when you intend to retire and what your life expectancy is, because your retirement funds will have to last for at least that long. Although it can be uncomfortable trying to put a number on our personal longevity, we need to assure that we do not run out of money in retirement.

When estimating how long you expect to live, be conservative. Do not make the mistake of using your own life expectancy as a definitive and rigid target. Fifty percent of people live beyond their estimated life expectancy. For married couples, there is a 36% chance that one member will live to age 95. Consider too that women outlive men by an average of five years.

Also, consider not only current life expectancies, but also how medical progress in the future will almost certainly extend average mortality ages beyond today's estimates. You and your assets need to be prepared to last longer, particularly if you're active, in good health, and have longevity in your family history.

There are life expectancy tables and calculators on the internet that can help you estimate your life expectancy. However, keep in mind that the calculations are not personalized, and you will still have to consider other factors besides age and sex, such as marital status, health, ethnicity, smoker/non-smoker, lifestyle, and family history.

Once you have decided on your life expectancy age, subtract the age at which you plan to retire from your life expectancy age. The result will provide you with an idea of the number of years of retirement that you should plan for, i.e.:

Estimated number of years of retirement = Number of years of life expectancy - Age when you plan to retire

Keep in mind that the sooner you plan to stop working, the less time you will have to save, the less time your portfolio will have to grow, and the more years of retirement spending you will have.

DETERMINING RETIREMENT INCOME NEEDED

There is no generic answer to the question of how much money you'll need for retirement. Retirement dreams are different for everyone, and they change as life progresses. Everyone has different situations to be considered—whether the house paid for, where they plan to live, do they plan to travel, etc.

There is, however, a universal approach based on the goal of living a life in which you are financially comfortable and the assumption that the amount of money you need today to

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achieve this lifestyle will serve as a guide for calculating how much money you need to duplicate the same lifestyle in retirement.

To estimate your retirement income needed to maintain your current standard of living using this approach, you would simply take 75% to 80% of your current income (more if you plan to travel), i.e.:

Estimated Retirement Income needed to maintain current standard of living = 75% to 80% of Current Income (more if you plan to travel)

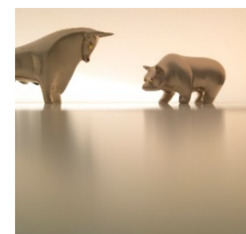
However, many retirees find they need as much, if not more, income than before they retired. Ensure you consider your future lifestyle carefully.

When you retire, you will need to replace your employment income with income from other sources. These sources may be pensions, retirement savings plans, IRAs, Social Security, personal investments, rental property, post-retirement employment, etc. You may want to consider selling physical assets such as your home, extra vehicles, or your expensive "toys."

It is time to start thinking of how the assets that you have accumulated can help you transition to and achieve the retirement you have been working toward.

SAVING AND INVESTING FOR RETIREMENT

Most persons need their assets to grow to sustain their retirement objectives over a period of decades. But how you save can be as important as how much you save. Don't assume that you can build a portfolio of savings and investments and live off just the dividends or interest without worries or concerns. The stock market is cyclical with upturns and downturns. A single market fluctuation can have a significant effect on a financial plan.



Stock investments are the most common element for achieving investment growth, but it's important not to chase returns or overreact to market events. Many studies show that long-term disciplined investors win by staying invested and allowing their assets to recover. Stay focused on your retirement goals and stay disciplined as an investor.

Age makes a difference when determining what assets should play a role in your personal portfolio. Generally, the idea is to invest more aggressively when you're young and then slowly dial back to a more conservative mix of investments as you approach retirement age. Having a longer time until retirement gives investments time to recover from potential downturns, which means you may be able to take more risk. People in their 30s can typically handle more risk than those in their 50s or 60s. Losing or diminishing assets at the threshold of retirement can prove a huge problem to retirees. However, make sure you don't invest so conservatively that you fall behind inflation.

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An investment strategy, or asset mix, that balances growth potential while managing risk may help you reach your retirement goals. (Risk in this context refers to volatility of returns.) Your investment mix should reflect your time frame for investing (for instance, the number of years until you retire), your tolerance for risk (how upsetting would temporary market fluctuations be?), and your financial situation (your ability to invest this money and leave it invested for decades). The optimum investment mix may provide the potential for the growth you need without taking on more risk than you are comfortable with. But remember, diversification and asset allocation do not ensure a profit or guarantee against loss.

Traditional IRA

The maximum contribution limits for Traditional IRAs change from year to year. The current limit is $6,000 for anyone under age 50. Persons 50 and over can contribute an extra $1,000 per year. You can continue to contribute to your Traditional IRA as long as you have earned income for the year in which you contributed. Withdrawals from Traditional IRAs are reportable and taxable. You can withdraw assets from a Traditional IRA without additional tax once you reach age 59½. A withdrawal prior to age 59½ is called an "early distribution," and early distributions may be subject to a 10% additional tax (there are some exceptions to this general rule). If you are the owner of a Traditional IRA, you must start taking withdrawals from your IRA no later than April 1 of the year following the year in which you reach age 72. The Pension Protection Act allows taxpayers to donate up to $100,000 per year to charity directly from their IRA account. However, because the distribution is not included in taxable income, individuals will not be able to claim a tax deduction for the charitable contribution.

Roth IRA

The maximum contribution limits for a Roth IRA change from year to year. Currently, the limit is $5,500 for anyone under age 50, and those 50 and over by the end of the tax year can contribute an extra $1,000 per year.

There are Adjusted Gross Income limits that affect eligibility to contribute to a Roth IRA. For the current year, these are:

- If you file as single or head of household, the amount you can contribute will be limited when your AGI reaches $125,000, and you may not contribute to a Roth IRA at all if your AGI exceeds $140,000.
- If you are married filing jointly, those numbers are $198,000 and $208,000.
- Those filing Married Filing Separately but living with a spouse and with AGI over $10,000 may not contribute to a Roth IRA.

Participants can contribute to a Roth IRA at any age as long as they have taxable income for the year in which they contribute. Withdrawals from Roth IRAs are always reportable, but they are not always taxable. If you have held the Roth IRA for a minimum of 5 years, you can withdraw the principal amount from the Roth IRA prior to age 59½ without taxes or penalties. Unlike Traditional IRA accounts, there are no requirements to start liquidating the Roth IRA account at age 72. Taxpayers are allowed to donate up to $100,000 per year from their IRA to

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charity. However, because the distribution is not included in taxable income, individuals will not be able to claim a tax deduction for the charitable contribution.

Annuities

An annuity may be used as a retirement savings plan. Annuities combine an investment vehicle with an insurance contract. The purpose of the insurance contract is to protect the designated beneficiary against loss of capital, but it also enables the investment to grow tax deferred. One drawback is that most of the assets cannot be accessed before age 59½ without a 10% additional tax. Also, capital gains are taxed as ordinary income when distributions begin.

The purpose of the annuity contract is to create an invested pool of money to provide a series of payments (an income stream) to the person named as the annuitant in the contract. Payments (usually monthly) may be for a designated period of time or for the life of the annuitant. There are several "persons" named in an annuity contract: the owner, the annuitant, and a designated beneficiary. In most cases, the owner and the annuitant are the same. The beneficiary is the person designated to receive the proceeds of the contract, if there are any, following the death of the annuitant.

The two major types of annuities are deferred and immediate. In an immediate annuity you provide an insurance company with a lump sum of money, and in exchange the company starts making monthly payments of an agreed-upon amount to you. An immediate annuity can be a great choice for a new retiree with lots of retirement savings who isn't comfortable managing the investments personally. By paying over a large chunk of retirement savings for an annuity contract, you put the responsibility for making that money perform onto the insurance company. With a deferred annuity you will hand over your money to an insurance company, allow your account to grow according to the terms of the annuity contract, and then start receiving payments when you retire.

The advantages offered by an annuity are that there is no limit to contributions, earnings are tax-deferred until withdrawn, it can provide for lifetime income, it offers a variety of investment options that vary in risk and potential growth, and it is an insured investment that, in some cases, provides for the beneficiary to receive at least the amount paid in minus previous withdrawals in the event of death of the annuitant. The disadvantages of an annuity are that there is no capital gains tax advantage with withdrawals, no residual payments are made to the annuitant or his/her estate upon death of the annuitant (some annuities may provide income for survivors), there is a penalty for early withdrawal, they are quite expensive when compared to other options such as IRAs, and when the beneficiary receives distributions from the annuity he/she has to pay income taxes on any growth in the annuity since purchase.

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Social Security

Social Security is another source of retirement income. You must, however, give serious thought to when and how you will use the funds from this benefit.

The amount you will receive will depend on many factors, including your top 35 years of income earnings (you need a minimum of 10 years' work history), when you choose to take Social Security benefits, whether you will work during retirement, and any special provisions that you choose.

Social Security benefits do not begin automatically; they must be applied for. Generally, the Social Security Administration provides notification of eligibility for benefits about six months prior to Full Retirement Age (FRA). This notification is not guaranteed, however, especially if the earnings record is incomplete. Full Retirement Age, or "Normal Retirement Age," is the age at which a person becomes entitled to receive full retirement benefits, usually 66 or 67 depending on your birth date.

This table provides the Full Retirement Age for various dates of birth:

Date of Birth	Full Retirement Age
1937 or earlier	65
1938-1942	65+ (sliding scale)
1943-1954	66
1955-1959	66+ (sliding scale)
1960 or later	67

Although you can receive benefits as early as age 62, there will be a significant reduction in the benefit amount if you retire before your Full Retirement Age. In general, the longer you wait to begin to receive Social Security benefits (up to age 70), the greater your benefit amount. If you were born during or after 1943 there is an 8% annual increase in benefit payments for each year you wait to start payments from Full Retirement Age until age 70, as long as you continue to earn an income before you take your Social Security benefit.

Your estimated Social Security benefits at 62, your FRA, and at age 70 are available in your annual Social Security Statement from the U.S. Social Security Administration (www.ssa.gov).

Working while receiving Social Security benefits before you reach your Full Retirement Age may also reduce benefits. Benefits are reduced if earnings exceed certain limits for the months before you reach Full Retirement Age.

- If you are younger than your FRA, $1 in benefits will be deducted for each $2 in earnings you receive above an annual limit
- In the year you reach your FRA, benefits are reduced $1 for every $3 you earn over an annual limit until the month you reach FRA

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- Earnings received during or after the month you reach your FRA will not reduce received benefits
- A special rule applies during the first months of retirement so received benefits are not reduced if earnings are under a certain monthly limit

Other

Finally, to assure that you have money available in the event of a major market downturn, consider holding at five to ten years of needs in cash and high quality bonds to ensure that you can ride out the situation and can pay your bills. If you have a retirement savings plan, know how it is invested. Learn about your plan's investment options and diversify your investments to help you reduce risk and improve return. You may want to change your investment options over time depending on your age, goals, and financial circumstances. Depending on the type of contributions made to the plan, taxes may be only deferred until you withdraw funds at retirement, resulting in lesser funds available than expected.

WHAT IS A REVERSE MORTGAGE, AND SHOULD I CONSIDER IT?

A reverse mortgage is a financial tool that allows you to supplement your income by accessing your home equity without having to make monthly mortgage payments. However, you must continue to pay property taxes, homeowner's insurance, and maintenance costs.

In a reverse mortgage the lender makes payment(s) to the borrower. The payment(s) can be in the form of a lump sum, monthly payments, a line of credit, or some combination of these options.

The interest and fees associated with the loan get rolled into the balance each month. That means the amount you owe grows over time, while your home equity decreases. You get to keep the title to your home, and the balance isn't due until you or your heirs sell the home. If there is any equity left over, it goes to the estate. If not, or if the loan is worth more than the house, heirs are not required to pay the difference.

The most common type of reverse mortgage is a home equity conversion mortgage (HECM), which is backed by the Federal Housing Administration (FHA). Borrowers pay an insurance premium to participate, which is used to fund FHA reserves. If a borrower fails to repay their loan, those reserves are drawn against to pay back the lender.

For borrowers to be eligible for a home equity conversion mortgage:

- They must be at least 62 years old
- They need to own the home outright or have paid down a considerable amount of the mortgage
- The property must be their principal residence
- They must not be delinquent on any federal debt

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- They must keep current on property taxes, homeowner's insurance, homeowner's association fees, etc.
- They must pay an upfront insurance premium, usually 2% of the home's appraised value
- They will be subject to a credit check

Be sure you fully understand the pros and cons of reverse mortgage pros and cons before you consider getting one:

- Pros of reverse mortgages
  - Ideal for retirees with a lot of equity in their homes and who need assistance with retirement income
  - Can keep property and still get cash out of it
  - Can use proceeds of reverse mortgage to pay off existing home loan
  - Funds received are considered a loan and are therefore not taxable
- Cons of reverse mortgages
  - Reverse mortgages are expensive, requiring borrower to not only keep up with property taxes, homeowner's insurance, HOA fees, and maintenance costs, but also to pay the upfront insurance premium of 2% of appraised value, plus loan origination fees
  - They could default on loan and lose home to foreclosure if unable to afford to pay property taxes, homeowner's insurance, homeowner association fees, and home maintenance costs, or if you spend most of the year living elsewhere
  - Reverse mortgages slowly reduce home equity. After your death, if value of home is less than amount owed, heirs are required to pay the full loan balance or 95% of appraised value, whichever is less. Could result in heirs having to sell house or turning it over to the lender
  - They could affect eligibility for need-based government programs, sch as Medicaid or Supplemental Security Income.

A reverse mortgage may be helpful, but it isn't for everyone. Though it's an easy way to get cash, it could put your finances at more risk in the long run. The decision to take out a reverse mortgage is one you should consider extremely carefully.

DETERMINING WHETHER ASSETS WILL MEET RETIREMENT INCOME NEEDS

Will you be able to fund your retirement with your pension? Will your TSP investment be enough? How much money do you need to create in investments? Will Social Security make up the difference? Do you even know how much money you will need in your retirement account? To help you find the answers there are a few simple financial rules that can help you make a good estimate: the Rule of 200 and the Rule of 300.

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Rule of 200/Rule of 300

The Rule of 200/300 can help you calculate how much monthly income will be generated by a specific sum of money with a particular rate of return, or how much lump sum money is needed to generate a specific monthly income at a particular rate of return. The Rule of 200 uses a rate of return of 6%, while the Rule of 300 uses a more conservative return rate of 4%. These rules assume that your portfolio will earn the stated rate of return and you will withdraw only the returns, leaving the principal intact.

First, multiply your estimated annual income needed by the expected number of years of retirement to calculate the total funds you will need throughout your retirement. Next, apply the Rule of 200/300 to determine if your assets can generate that amount.

The following examples demonstrate how to apply these rules.

Example 1:
If you need an income of $5,000 per month, how much would you need to have in a portfolio with a rate of return of 6%? 4%?

Rule of 200 (6%): $5,000 x 200 = $1,000,000
Rule of 300 (4%): $5,000 x 300 = $1,500,000

Example 2:
How much monthly income will a portfolio of $120,000 provide with a rate of return of 6%? 4%?

Rule of 200 (6%): $120,000 divided by 200 = $600 per month
Rule of 300 (4%): $120,000 divided by 300 = $400 per month

The results of these calculations are not precise, but they can provide a close approximation for your retirement planning. You can't guarantee your investments will earn a 6% or 4% rate of return, but over the long term these rates are practical.

INFLATION

Inflation affects all of us but has a greater effect on those who are no longer working, living on a fixed income, and unable to manipulate their savings to address a higher cost of living.

Inflation affects how much your retirement dollars can buy. It requires retirees to adjust their retirement strategy to ensure they will have enough funds to last throughout their retirement, including for important necessities such as healthcare.

Low inflation rates are just as harmful to retirement income sources as high inflation rates. The Social Security Administration uses inflation rates to determine Social Security benefit cost-of-

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living increases, so low inflation rates mean low cost-of-living increases. Also, banks decrease savings interest rates in times of lower inflation.

With inflation, things will cost more in the future than they will today, but how much more? This compound interest table shown can help us see the effect of inflation.

Rate	5 years	10 years	15 years	20 years	25 years	30 years
1%	1.05	1.10	1.16	1.22	1.28	1.35
2%	1.10	1.22	1.35	1.49	1.64	1.81
3%	1.16	1.34	1.56	1.81	2.09	2.43
4%	1.22	1.48	1.80	2.19	2.67	3.24
5%	1.28	1.63	2.08	2.65	3.39	4.32
6%	1.34	1.79	2.40	3.21	4.29	5.74
7%	1.40	1.97	2.76	3.87	5.43	7.61

$1.00 lump sum compounded annually. This illustration is for hypothetical purposes only, does not represent a specific investment, and does not reflect the effect of any sales charges, annual fees, or other fees that could be assessed. Equity investments fluctuate in value with market conditions.

If we assume that we'll need our retirement funds 30 years from now, and that inflation will average 4% between now and then, our retirement fund must be 3.24 times larger to retain the same purchasing power.

How does that translate into money? Let's assume that we need $300,000 in today's dollars to retire in 30 years. With an inflation factor of 3.24, to buy what $300,00 buys today we would need:

$300,000 x 3.24 = $972,000 in 30 years
$972,000 ÷ 300 = $3,240 per month in 30 years versus $1,000/month today (using Rule of 300)

Inflation can create financial problems during retirement, but its impact can be decreased if retirees take the time to develop a plan to address it by reducing spending, adjusting retirement budgets to make them more relevant and practical, and adding investments to their assets.

RETIREMENT TAX PLANNING TIPS

After retirement there is usually no regular paycheck and most of your income will come from sources like pensions, retirement savings plans, Social Security benefits, IRAs, or other savings and investments. You must address the effect of taxes on your income as much as you did while you were working and saving for retirement. Failure to consider tax strategies in retirement planning can result in significant decreases in personal and retirement savings.

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There is no one correct tax strategy. Every person has a different financial situation and different retirement goals. Consequently, it is recommended you talk with a professional tax or financial counselor.

Here are a few tax tips to consider during retirement planning:

- Selection of most tax-favorable location in which to live
  Federal taxes are the same everywhere, but every state and city—and foreign country—has different tax requirements. Deciding on where you will live will determine if and how much you pay in:
  - Sales taxes
  - Property taxes
  - State income taxes
  - State pension taxes

- Timely withdrawal of Required Minimum Distributions (RMDs)
  You should know which of your retirement accounts are subject to a Required Minimum Distribution. The RMD is the minimum amount that a retiree must annually withdraw and pay taxes on from a tax-qualified retirement account after attaining a certain age.

  Required Minimum Distribution rules apply to all employer-sponsored retirement plans including profit-sharing plans, 401(k) plans, 403(b) plans, and 457(b) plans, as well as to traditional IRAs and IRA-based plans such as SIMPLE IRAs, Simplified Employee Pensions (SEPIRA), and Salary Reduction Simplified Employee Pensions. While RMD requirements for Roth 401(k) accounts apply while the owner is living, they do not apply to Roth IRAs until the owner dies.

  RMDs from retirement plans such as 401(k) and 457(b) plans must be taken separately from each of those accounts. However, while an IRA owner must calculate the RMD separately for each account owned, the total amount can be withdrawn from one or more of the accounts. 403(b) accounts have similar RMD rules.

  Recent tax law changes have changed the age at which RMDs apply from 70½ to 72. If you reached the age of 70½ in 2019, you must have taken your first RMD by April 1, 2020. If you reach age 70½ in 2020 or later, you must take your first RMD by April 1 of the year after you reach 72.

  The withdrawal amount is based on your age, life expectancy, and account balance. You can determine your RMD by taking your December 31 account balance and dividing it by the life expectancy factor found in the IRS life expectancy tables. You can download the IRA Required Minimum Distribution Worksheet from https://www.irs.gov/pub/irs-tege/uniform_rmd_wksht.pdf, or consult Retirement Topics—Required Minimum Distributions at https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-required-minimum-distributions-rmds for more information.

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Because RMDs are considered as ordinary income, withdrawals are included in your taxable income except for any part that was taxed previously or that can be withdrawn tax-free. Smaller distributions may reduce the taxes on benefits being received or even eliminate taxes altogether. In addition, managing retirement income in this way can also help you qualify to pay lower Medicare Parts B and D premiums, which are income-based.

If the full RMD amount is not withdrawn each year, a penalty of 50% of the amount not withdrawn must be paid. Delaying the withdrawal until April of the following year might be a consideration if your income will be significantly lower the following year. Consideration should also be given to withdrawing no more than 4% to 5% of your accounts in the first year of retirement and then increasing that first year's dollar amount annually by the inflation rate in subsequent years.

- Priority of withdrawals from retirement accounts
  When and how you withdraw funds from a retirement account can impact taxes in different ways. The decision is a difficult one but making the right one can keep you out of a higher tax bracket and avoid making your Social Security benefit taxable. Making the decision can be complicated. The following two withdrawal strategies—Traditional and Proportional—will provide you with some ideas on getting more out of your retirement savings.

  - Traditional
    In the traditional strategy, many financial advisors recommend withdrawing from the various retirement accounts in a certain order. A retiree would start first by withdrawing from taxable accounts. They incur little or no tax because the only taxable part of those withdrawals would be from capital gains, which are taxed at a lower rate than other types of earned income.

    Next would come withdrawals from tax-deferred accounts like your 401(k) and traditional IRAs, which would incur taxes at ordinary rates. The final withdrawals would come from ROTH accounts, which would be tax-free.

    This strategy means tax bills are mainly due in mid-retirement years for most people. Also, this approach lets money in tax-deferred accounts grow for a longer period.

  - Proportional
    For most people with multiple retirement saving accounts and relatively even retirement income year by year, a better approach might be proportional withdrawals.

    Once a target withdrawal amount is determined, a retiree would withdraw from each of the various accounts based on that account's percentage of the overall savings. The effect is a more stable tax bill during retirement and potentially lower lifetime taxes and higher lifetime after-tax income.

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This strategy typically incurs a tax bill every year, but the amount can be lower and relatively stable from year to year. Eventually, it can result in a lower tax bill over the length of your retirement. It can also reduce taxes on Social Security benefits and decrease Medicare premiums, since taxable income would be spread out over a greater number of years.

Which strategy makes the most sense for you will depend on your personal circumstances and finances. In some cases, a combination of the two may be the best alternative and result in greater tax savings.

Optimizing withdrawals in retirement is a complex process that requires a firm understanding of taxes, financial goals, and how accounts are structured. Don't go it alone. Consulting a financial professional or tax specialist can help determine which options would provide the best tax savings.

- Conversion to Roth account

Consider moving some of your retirement funds before you retire, and certainly after you retire, from retirement accounts whose distributions are taxable, such as a 401(k) or traditional IRA, into Roth accounts using a process called "partial Roth conversion." Unless you are at least 59½ years old, this conversion will be considered as an early withdrawal and will be taxable and may be subject to a 10% penalty.

Once your funds are in a Roth account, they are no longer subject to required minimum distributions. Although you may pay taxes on the conversion, you won't have to pay them when you withdraw your funds.

Try to avoid making large Roth conversions in a single year and incurring high taxes. Instead, if you are still employed before you retire, spread these conversions throughout several years.

- Reduction of taxable Social Security benefits

Most persons receive Social Security retirement benefits without paying taxes on them. However, for those who do, the IRS uses a factor called "provisional income" to determine the extent of tax liability. Provisional income, in conjunction with your tax-filing status, determines how much of your Social Security benefits are taxable.

Provisional income includes all sources of taxable income, such as wages, pensions, tax-exempt and non-exempt interest and dividends, and 50% of Social Security benefits. The amount of provisional income can result in up to 85% of Social Security benefits being taxable.

Qualified Roth distributions are not included in provisional income since they are not taxable. Consequently, the greater the portion of your retirement income derived from Roth distributions, the lower will be the tax vulnerability for Social Security benefits.

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This table provides information on the taxable portion of your Social Security benefits.

ESTIMATE OF SOCIAL SECURITY BENEFITS TAXABLE		
Tax-Filing Status	**Provisional Income**	**Portion of Social Security Benefit Taxable**
Single	Less than $25,000	0%
	$25,000 to $34,000	Up to 50%
	More than $34,000	Up to 85%
Joint	Less than $32,000	0%
	$32,000 to $44,000	Up to 50%
	More than $44,000	Up to 85%

- Contributing to charity
  Once you reach age 70½, you can make a direct transfer of up to $100,000 from your IRA (other than a SEP IRA or SIMPLE IRA) to a qualified 501(c)(3) charity using a qualified charitable distribution (QCD). A QCD will satisfy part or all of your RMD requirement and reduce your taxable income, even if you don't itemize deductions on your tax return.

DEVELOPING A RETIREMENT BUDGET

Many future retirees believe that their expenses will decrease after retirement, but this is not always the case. Realistically, with more time on your hands, there will be more time to spend money, and you may find yourself traveling more. Consequently, you need to develop a retirement budget.

Your retirement budget will include financial needs like mortgage payments, utilities, food, and clothing. In addition, don't forget about items such as unexpected health expenses, home improvement or repair costs, long-term care, etc. Be aware that dental procedures are seldom covered by health insurance, even Medicare. You should also include expenses for travel and entertainment, as well as funds for leaving a charitable legacy or gifting money to family members each year.

Once you have a feel for the retirement income you will receive, you must calculate whether it, combined with income from your investments, will meet your needs. If you can't achieve the retirement lifestyle you want, you may have to scale back your wants or find a way to generate more income.
In addition, try to avoid increasing existing debt or creating new debt. Debt is a real problem in any stage in life, but especially during retirement when you are face with a fixed income. Pay for things as you go and set aside funds for major expenses. Pay off your credit card balance each month. Your goal should be to go into retirement with little or no debt.

Try to avoid making large purchases such as buying a new car, putting on a new roof, etc., just before retirement. This can preclude having to pay for them during retirement but be prepared

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for other unexpected large expenses to appear. Include savings for such expenses in your retirement budget.

REPLACING INSURANCE BENEFITS AFTER RETIREMENT

While we work, our employer usually provides us with insurance benefits such as health care, life, and long-term care. Upon retiring, we need to replace these benefits in our retirement plan. Why is this coverage so vital and how will we use it during retirement?

During our retirement years, the need for medical services grows. At the same time, the cost of medical services continues to increase, as well as the cost of health insurance. It is estimated that the average couple will need almost $300,000 in today's dollars for medical expenses in retirement, not including long-term care. Private insurance or Medicare are the primary options for healthcare coverage in retirement. If you retire before age 65, when you become eligible for Medicare, you may be surprised at the high cost of insuring yourself until you qualify for Medicare. Private health insurance coverage for persons in their 60s can easily top $1,000 per month. And after you are covered by Medicare, you'll find it does not cover all medical expenses. The cost burden created by medical services and health insurance puts us financially at risk and can create major problems with our retirement savings if we don't plan for them.

Medicare

Medicare is the federal health insurance program for people age 65 or older. People younger than 65 can qualify for Medicare if they have certain disabilities, end stage renal disease, or amyotrophic lateral sclerosis (Lou Gehrig's Disease). If you retire early and lose employer benefits before coming eligible for Medicare you will need interim health coverage, which can be costly as you near retirement.

Medicare helps with the cost of health care, but it does not cover all medical expenses or the cost of most long-term care. You may buy a Medicare supplement policy (called Medigap) from a private insurance company to cover some of the costs that Medicare does not.

Medicare is financed by a portion of the payroll taxes paid by workers and their employers. It also is financed in part by monthly premiums deducted from Social Security benefit checks.

The Centers for Medicare and Medicaid run the Medicare program. But you apply for Medicare through Social Security, where you can get general information about the Medicare program.

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Medicare has 4 major parts:

- Part A (Hospital Insurance): Helps pay for inpatient care in a hospital or skilled nursing facility (following a hospital stay), some home health care, and hospice care. This benefit is provided by U.S. Government.
- Part B (Medical insurance): Covers services and supplies considered to be medically necessary to treat a disease or condition, as well as some preventive services.
- Part C (Medicare Advantage): Persons with Medicare Part A and Part B can choose to receive all their health care services through a Medicare-approved private company under Part C. Part C usually includes Medicare prescription drug coverage (Part D).
- Part D (Prescription drug plans): Helps pay for medications doctors prescribe for treatment; managed by Medicare-approved private insurance companies.

Although Medicare hospital insurance (Part A) is free, you must pay for Medicare medical insurance (Part B).

Be aware that Medicare is not a High Deductible Health Plan. Consequently, those covered by Medicare may not contribute to a Health Savings Account and must stop contributing to one at least six months before enrolling in Medicare but may continue making withdrawals.

This table reflects Medicare costs for 2021:

Part	Monthly Premium	Deductible/Coinsurance
Part A: Hospital Insurance	Age 65, if you paid Medicare taxes at least 10 years: $0 If not eligible for free Part A, then up to $4571month, late enrollment penalty	$1,484 per benefit period/ varies with service
Part B: Medical Insurance	$148.50/month, up to $504.90/month if income above certain thresholds or enroll after Initial Enrollment Period	$203 annual deductible, then 20% of services
Part C: Medicare Advantage	Varies by plan	Varies by plan
Part D: Prescription Drug Coverage	Varies by plan and income, plus late enrollment penalty if applicable	Varies by plan
Medigap policy	Varies by plan	Varies by plan

Long-term care

Similarly, the need for ongoing care due to mental or physical inabilities can pose serious threats to our retirement finances. For most, the cost for this type of care is very expensive,

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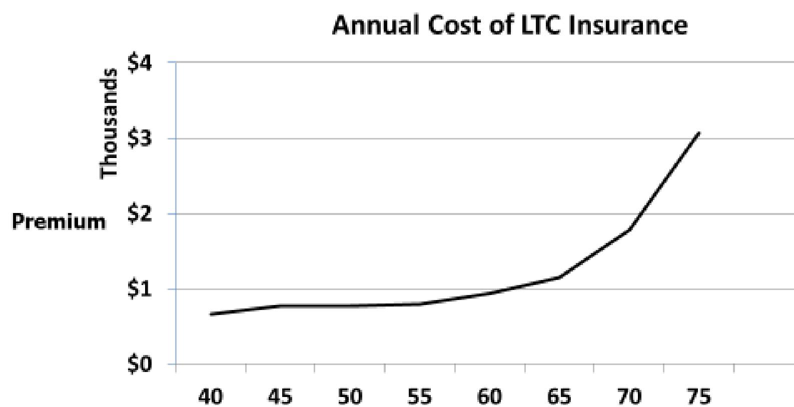
and it becomes even more expensive over time. Medicare won't pay for ongoing custodial care in a nursing home or assisted living facility, and Medicaid coverage becomes available only after people have exhausted almost all of their assets. Long-term care insurance then becomes the best solution for covering long-term care costs.

Long-term care insurance is very affordable at a younger age, but it becomes more expensive as one ages. The cost is based on where you live, your age at the time you buy the policy, the benefits provided, and other factors. This chart shows how the cost of long-term care insurance increases with age.



There are different ways to acquire long-term care coverage. They include stand-alone, individual, and group policies, as well as policies combined with a life insurance policy, disability income policy, or a single-premium deferred annuity. A financial professional can provide more details on these different options including which one may be better suited for your particular situation and retirement plan.

Life insurance

Life insurance is a financial tool that can be used in many ways in a retirement plan. If the breadwinner of the family dies, life insurance proceeds can be used to cover things such as lost income, housing, college expenses, debts, taxes, and final expenses. If the spouse dies, death benefits can cover lost income, day care costs, housekeeping expenses, final expenses, etc. A life insurance policy can provide for an inheritance or provide for a spouse if a pension does not include survivor benefits. Life insurance can also provide living benefits that can be used in the case of terminal illness or the need for long-term care. Finally, for IRA owners who die on or after January 1, 2020, non-spousal beneficiaries of the IRA account must withdraw all funds from that account within 10 years of the account owner's death, which may create a tax

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burden. Proceeds from a life insurance policy to that beneficiary could help address this dilemma.

CONSIDERATIONS IN DECIDING TO RETIRE

When should you retire? When is the right time to leave your job? This is one of the most important decisions in life and one that creates a lot of stress.

For many of us, our work plays a significant role in defining who we are and what we consider our role in life to be. Retirement, however, can create the need to make mental adjustments regarding our sense of self-worth and the role we play in society.

Some experts recommend easing your way into retirement. For example, you could work part time during your last working year and use the extra time to begin new activities. This way you won't be hit with a drastic change. And yes, some people choose to continue to work, especially at an enjoyable job, and the structure and socialization can be beneficial to our overall well-being.

There are also many unknowns in deciding to retire—how will your health or that of your spouse endure, what is your life expectancy, will anyone in your family need financial assistance or personal care, etc. Consequently, the decision should not be made solely based on objective facts or figures such as the availability of retirement income, etc. Consider your personal values and priorities and what is important to you and your family. Is it financial security? Is it quality of life?

Commitment to your decision is the first and most important step toward a successful transition to retirement. Once you decide on a retirement date, you can adjust your life and start firming up where you want to live, when to apply for Social Security benefits, etc.

Whether you choose to work during retirement, spend more time with family, become a volunteer, or participate in various social activities, it is important to remain engaged with life and people and to maintain your sense of personal worth and self-fulfillment. Also, since we can't predict our life expectancy or our future health, place a priority on participating in activities that are important to you and that may require greater exertion early in your retirement. This will prevent regrets about not having done some things if personal or family circumstances change.

CRITICAL RETIREMENT DATES AND DEADLINES

There are certain dates and deadlines related to retirement that one needs to know, understand, and keep up with since they can change regularly.

Some of these are:

- Qualifying for Medicare and the penalty if you don't enroll in time
- Claiming Social Security benefits and when you can get the most benefits

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- Withdrawing funds from your retirement savings plans early and the penalty involved
- Withdrawing funds from your retirement savings plan as required by the IRS and the penalty for failing to do so

Some of these dates and deadlines are shown in the table below:

KEY AGES FOR RETIREMENT PLANNING	
Age	**Significance**
Before 50	Contribute to investment accounts
50	IRS allows "catch-up" contributions to IRAs and qualified employer-sponsored retirement savings plans
59½	IRS 10% early distribution penalty tax no longer applies for withdrawals from tax-qualified retirement savings plans
60	Widows can apply for Social Security benefits based on deceased spouse's work record
62	Social Security early retirement age, benefit reduced
65	Eligible to apply for Medicare
66-67	Social Security Full Retirement Age (FRA)
70	Social Security maximum benefit retirement age, no benefit to delay after this
72	Must take required minimum distributions (RMDs) from certain tax-qualified retirement savings plans

AS YOU CONTINUE YOUR CAREER AND APPROACH RETIREMENT

As you continue in your career, review your retirement goals regularly to confirm what you want to do during retirement and how much it will cost. Check to see if you are on track financially. Review and update your retirement budget and check the status of your retirement savings and investments. Adjust your retirement plan as necessary. Enjoy your retirement!

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