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United Way

United Way Retirees Association

It's Never Too Early Or Too Late to Plan for Your Retirement

United Way
Retirees Association

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United Way Store, 800.772.0008.

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Contents

Preface

This booklet was prepared as a result of input from United Way Retirees Association (UWRA) members who noted that pre-retirement planning would have helped them tremendously in their retirement years. Hindsight is always better, it seems.

Many United Way retirees, especially those who were in smaller United Ways, were not provided any type of retirement program. These older ladies and gentlemen are painfully aware of the problems trying to live on Social Security. Other retirees were fortunate to have benefited from a United Way retirement program. Payments from those plans, plus Social Security, still place a number of retirees in tight circumstances as rising costs, especially health care, cut deeply into their spendable income.

All this is to say that you should learn from your elders and you had better plan for that time when you decide to quit working.

"It's the new guy – he wants to know what the retirement plan is."

Message to the United Way Community

United Way's third national initiative, the **United Way** *Financial Stability Partnership*™, builds on the work that many of you have begun or are already deeply engaged in: removing barriers that prevent people from achieving the financial stability that leads to independence. Recognizing that to positively impact the most lives we must act collectively to change the economic and social conditions that most adversely affect people, United Way is expanding its work by focusing on solutions that increase financial stability and long-term economic independence for individuals and families.

The goal of the **United Way** *Financial Stability Partnership*™ is to help individuals and families gain the tools to increase their income, begin to save, and purchase assets. Planning for and saving for retirement is part of this effort. This does not only apply to our work in the community but also to us. Therefore, in line with this national initiative, the United Way Retirees Association (UWRA) is working to raise awareness in the United Way field to start planning now for retirement. This call to action booklet is the first step in an ongoing and comprehensive effort geared to both pre-retirees and current retirees. As the program progresses, additional tools will be developed to help you bring the necessary work of pre-retirement planning to your community.

This program has been made possible through a grant from the UWRA Endowment Fund and through the generosity of United Way retirees and staff who have given of themselves professionally and monetarily to put this into motion. A special thanks goes to Donald Sanders, Chair of the UWRA Committee leading this effort, and to Dr. George Wilkinson, the author of this booklet, as well as to UWRA members that offered valuable information and lessons learned from those who have been there, and United Way of America and local United Way staff that provided constructive feedback.

In the Knowledge Café area of United Way Online there is a Financial Stability section (**http://online.unitedway.org/site/soe/cafe/index.cfm?topicd=218**) that contains a rich set of tools such as archived webinars, messaging toolkits and promising practices to help you leverage your own work within this national framework. Stay posted—there is a lot more to come including pre-retirement planning information for our United Way family and resources geared to bringing this information to your community.

Thank you for your commitment to improving lives and building stronger communities.

W. Leon Matthews
President
United Way Retirees Association

Brian A. Gallagher
President and CEO
United Way of America

Introduction

The best way to save for retirement is to diligently sock away dollars starting with your very first paycheck and stopping only once the champagne is served at your retirement party. Too bad it doesn't always work out that way.

On the road to a comfortable retirement, many folks hit detours. Job loss, divorce, illness, disability, your children's educational expenses — there are myriad reasons why distant goals like retirement are often put on hold, while more immediate ones, like paying the mortgage, take precedence. In fact, even without a catastrophic event, many family budgets are stretched so thin that saving for retirement is simply impossible.

One thing is for sure. When your retirement time comes it's not going to be your parents' retirement — rewarded at 65 with a gold watch, a guaranteed pension, and health insurance for life. For many of you, retiring in this new century is a mystery. Earlier generations of workers could rely on employer-provided pensions, but now most workers will need to rely on their own work-related and personal savings plus Social Security benefits. These savings have to last longer because Americans are living longer, often into their eighties, nineties, and yes, even one hundred plus.

If you are one of those people who want to plan, this booklet is for you.

A Quick Look At What's Involved

The National Retirement Planning Coalition lists **10 Ways to Prepare for Retirement:**

1. Select a target date for when you want to retire.
2. Calculate how much money you need to accumulate by the time you want to retire.
3. Find out about your Social Security benefits.
4. Maximize your use of tax-advantaged plans such as employer retirement plans, individual retirement accounts and annuities.
5. If your employer doesn't have a pension or retirement plan, ask that one be started.
6. Don't touch your savings.
7. Diversify your assets.
8. Ask questions. Get help. Seek the assistance of a professional financial advisor.
9. Start now, set goals — *both financial and life style.*
10. Do a retirement plan and monitor your progress.

Planning for Retirement, Whether You're 20 or 59

USA Today[1] reporter John Waggoner looked at financial steps you should take according to your age and the appropriate allocations you should have in your investment portfolio for that time in your life. This is what he found.

20 to 29

You're young; you're starting your career; you're broke.

1. Start your 401(k) or 403 (b)* at work. Contribute at least up to the company match, if any.

2. Start a Roth IRA if you don't have a 401(k) or 403 (b) — or if you have one of those and can afford a Roth, do both. You can tap your Roth for a first-time home purchase, if needed. And you can withdraw principal penalty-free.

3. Start an emergency fund. If you don't have a bit saved for a rainy day, you'll have to go into debt for emergencies — or tap your retirement fund.

4. Make a living will, so your family will know your wishes in case of a health emergency. You'll need one when you retire, but you never know what will happen in the meantime.

Your Portfolio	
Standard & Poor's 500 stock index fund	50%
Small-cap core stock fund	25%
International stock fund	25%

30 to 39

You're still young; you're starting a family; you're in debt up to your eyeballs.

1. Don't reduce your retirement savings for college savings. You can finance college; you can't finance retirement.

2. Use your 401(k) or 403(b) to help you save. These plans let you save money before taxes. Suppose you're in the 25% tax bracket, earn $50,000 a year, and want to save $3,000 a year. Because of the tax savings, that $3,000 would reduce your take-home pay just $2,225.

3. Don't confuse whole life insurance with a retirement plan. Life insurance is good, and you need it to protect your family. But it's not for retirement savings.

4. Write your will or establish a living trust.* You never know.

Your Portfolio	
Standard & Poor's 500 stock index fund	50%
Small-cap core stock fund	15%
International stock fund	20%
Mid-cap growth stock fund	15%

* See Explanations starting on page 24 for further information on items marked with an asterisk.*

40 to 49

You're middle-aged; you're doing OK; you are starting to get worried.

1. If you're not contributing the maximum to your 401(k) or 403(b), this is the time to do it.
2. Your rainy-day fund should equal two or three months' expenses.
3. If you plan to remain in your home, refinance to make sure your mortgage will end when you stop working.
4. If you can fund a Roth IRA, do so. Otherwise look at alternatives for retirement savings plans, such as tax-efficient mutual funds.
5. Update your living will and make sure someone has power of attorney. You never know.

Your Portfolio	
Standard & Poor's 500 stock index fund	40%
Small-cap core stock fund	15%
International stock fund	15%
Mid-cap growth stock fund	15%
Bond funds	15%

50 to 59

You're nearing retirement; you're at the peak of your career; you're terrified.

1. If the kids are out of college, consider reducing your life insurance and increasing your savings.
2. Take advantage of the catch-up provisions for 401(k), 403(b) and IRAs, which let you contribute more each year.
3. At 55, start reviewing your Social Security benefits estimate every year and get estimates for any pensions you might receive. See how much your savings will have to be tapped to meet your expenses.
4. Update your will or trust. You never know.

Your Portfolio	
Standard & Poor's 500 stock index fund	30%
Small-cap core stock fund	10%
International stock fund	10%
Mid-cap growth stock fund	10%
Bond funds	30%
Mid-cap blend stock fund	10%

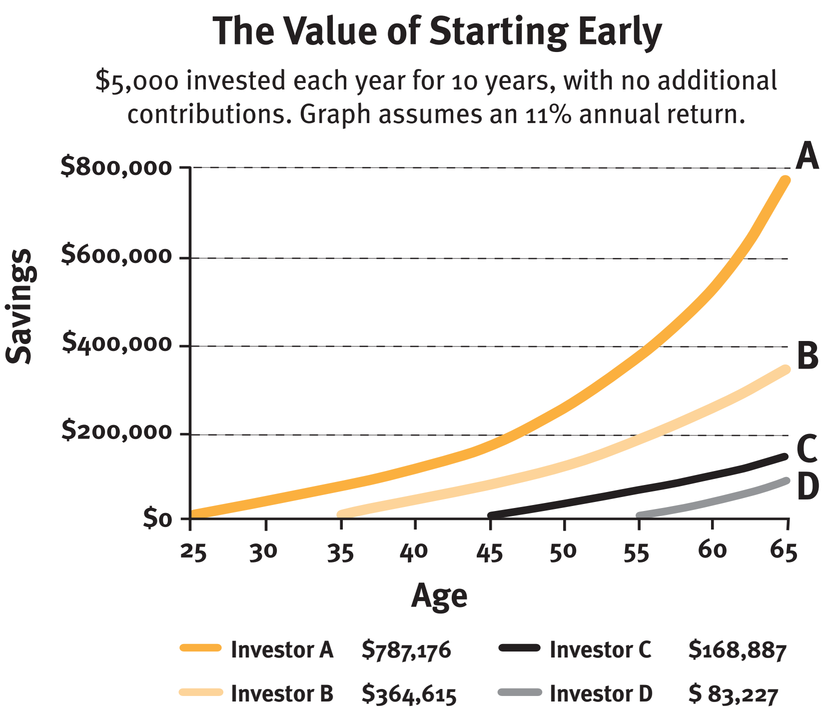
[1]This article appeared in *USA Today* 8/7/95 and was updated 3/9/06 on USAToday.com

WE MADE IT!

The Value of Starting Early

Even though each person invested the same amount of money, they have significantly different amounts at retirement. For example, Investor A began investing $5,000 a year when she was 25 years old and stopped when she was 35. For the next 30 years, she didn't contribute any more money and she didn't withdraw any money. She just left the account alone.

Investor B, on the other hand, waited until he was 35 years old and contributed $5,000 a year until he was 45. As you can see, that the difference of a decade is substantial. At retirement, Investor A has $422,561 more than Investor B — over twice as much. In fact, each investor in the chart below has more than twice as much as the person who started 10 years later (except for Investor D, of course, but she's a lot better off starting at age 55 than someone who waited until age 65).



Examining Sources of Funds for Your Retirement

Social Security

In 1940, the first year Social Security benefits were paid, only one person in 600 received assistance and the maximum monthly payment was $41. By 2006, that ratio has changed to one in six, and the average monthly Social Security benefit paid to a single retired worker was $804. Bear in mind that by 2035, Social Security may pay only 72% of promised benefits.

Social Security benefits were never intended to replace all the income a worker was earning prior to death, disability, or retirement. And according to literature published by the Social Security Administration, "Counting on just Social Security assures a substantial drop in your current standard of living." Social Security does, however, provide a retirement income foundation upon which you can build a level of financial security that might otherwise have been out of reach. Determining your projected Social benefit serves well as a point of departure for retirement planning.

To receive a Social Security retirement benefit, you must generally have at least 10 years of earnings from which Social Security (FICA) taxes were deducted. You must also be at least 62 years old, but benefits begun at this age are permanently reduced by 20% to 25%. To receive a full retirement benefit, you must be of "normal retirement age" which has increased from 65 to 67 for people born after 1937.

You may also continue to work after Social Security benefits begin, but your benefit amount is reduced by $1 for each $2 of earnings over $11,280 if you are under 65. Your benefit is not reduced if you are over age 65.

Employment-Based Plan

Employer-sponsored retirement or pension plans serves as the second type of funding potential available to support you in retirement. Employer-sponsored retirement plans include two major categories: defined-contribution and defined-benefit plans.

In a defined-contribution plan, the retirement benefit an employee receives depends upon the amount contributed — from either the employee or the employer or in some cases both — over time and the investment results.

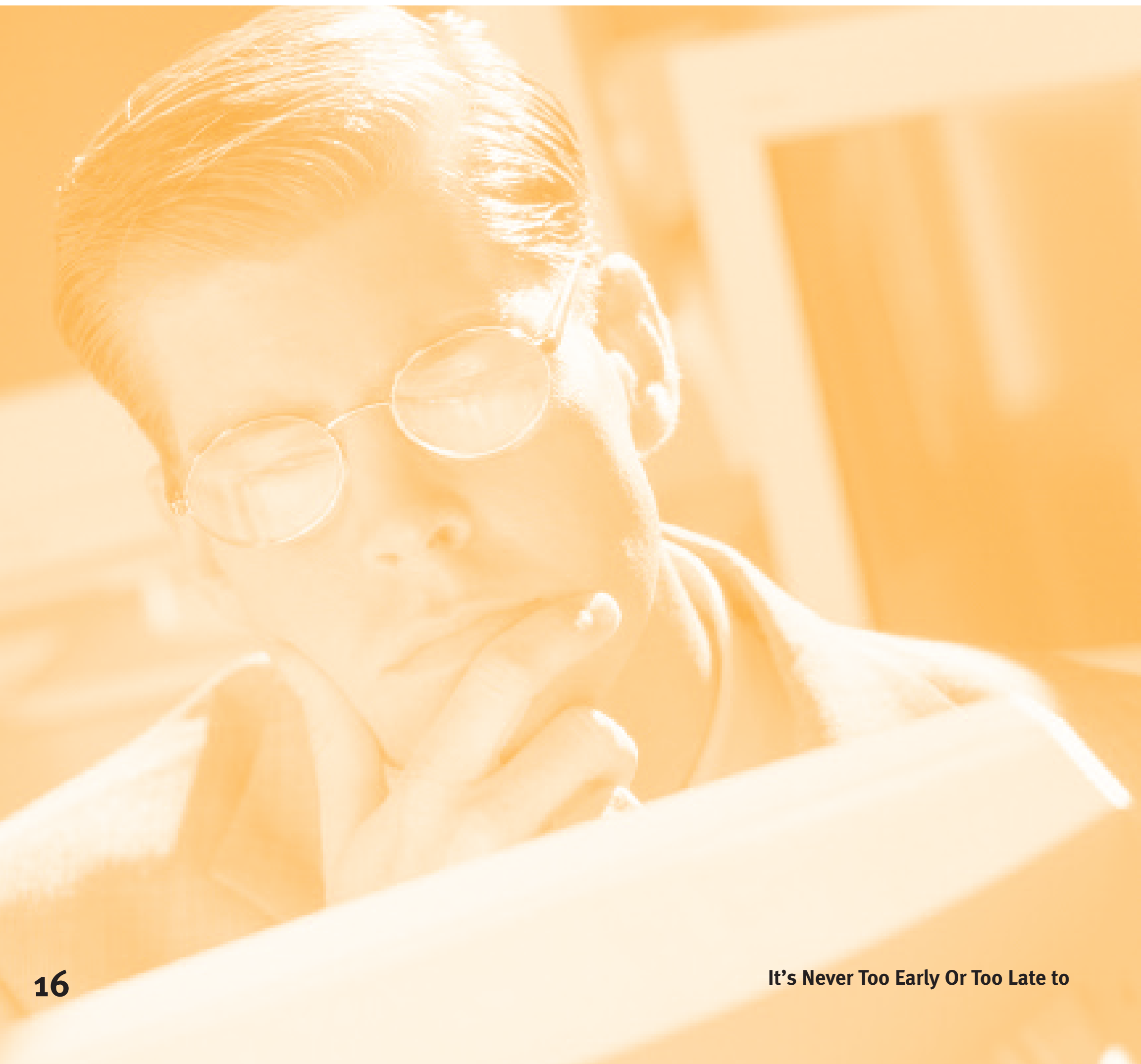
Defined-benefit plans differ significantly from defined-contribution plans in that the retirement benefit from a defined-benefit plan applies to all qualifying employees and is based on a predetermined formula, generally including factors such as income history and length of service. *Note:* This type of plan is rapidly disappearing.

Personal Savings

Another potential source is personal savings. One factor threatening the stability of this option is that the national savings rate averaged 1.1% of Americans' after-tax income for the last several years. Even when this somewhat anemic rate of savings is added to Social Security benefits, the resulting retirement income will most likely be insufficient. And, if you begin to save for retirement too late in life, the chances are excellent that your retirement income will not reach even 70% of your current income — at the low end of the range recommended by most financial planners.

If your Social Security retirement benefits and the pension benefits you receive from your employer don't equal the 70%-80% you'll need to retire, the difference must be made up with personal savings or you'll need to significantly reduce your standard of living, continue to work at least part-time, or tap the equity in your home via a reverse mortgage.*

* See Explanations starting on page 24 for further information on items marked with an asterisk.*



Figuring Out Just How Much You Need in Retirement

To live comfortably after you retire, you have to be realistic about how much you'll need to pay the bills.

Good health is wonderful. So is a nice place to live. But what you really need when you retire is *money — money to pay your bills, and enough left over to do the things you want*. The general rule of thumb is this: you'll probably need around 80% of what you're spending before you retire, more if you have expensive hobbies or plan to travel extensively. For example, if your gross income while you're working is $6,000 a month just before you retire — that's $72,000 a year — you'll need roughly $4,800 a month, or about $57,600 a year, after you retire.

Up or Down?

You can be pretty sure some of your living expenses will shrink after you retire, but others are equally certain to go up. Planning your financial future includes anticipating those changes.

What Costs Less?

- By the time you retire, hopefully, you will have paid off your mortgage.
- Based on the number of children you have and how old they are, you'll be able to predict when you'll be finished paying for their educations and support.
- If you commuted to work, you'll probably spend less on day-to-day travel and restaurant meals. You may need only one car, and will probably spend less on clothes and make fewer visits to the dry cleaner.

What Costs More?

- Home maintenance costs and property taxes tend to go up, not down, over time, unless you move to a smaller place or to a state with lower taxes.
- If you're home all the time, your utility bills may increase (even if you're not home all the time, these costs will likely increase in the future due to the rising costs of energy.)
- Home and car insurance are apt to increase.
- Medical expenses, including the cost of insurance, increase significantly over preretirement costs. These costs will continue to rise as employers cut back on healthcare coverage in general, and for retirees in particular. The cost of prescription drugs is partially covered by Part D of Social Security for an added premium. This will continue to change as Congress continues to remake the prescription plan adopted in 2005.

A Matter of Timing

If you start investing when you begin working — perhaps 35 or more years before you plan to retire, and you put away 10% of what you earn each year, you should have a head start on your long-term financial security.

For each year you delay, you'll have to put aside a larger percentage of your annual earnings to build the same level of reserves as someone who began at an earlier age.

Chances are you'll have a hard time finding that much money to invest, no matter how important you know it is to save. And the fewer years your assets have to compound, the harder they can be hit by a market downturn.

Inflation's Bite

Inflation is another factor you have to consider when planning your retirement budget. If you were retiring this June, for example, you'd need 80% of what you were spending in May. But next June you'd need more money to pay for the same goods and services.

That's because of inflation, the increase in the rising cost of living. Since 1926, inflation in the U.S. has averaged 3% per year. However, there have been periods of time when that figure reached as high 13.5% as it did in 1980. You have to expect these variations and the best way to plan is by earning money on your investments, at a rate that tops the rate of inflation.

Doing the Math

While it might take a long time to estimate your retirement needs if you were doing the math yourself, you can use one of software programs often called retirement planning calculators available on financial services and educational Website or on CD-ROMs. Some of these programs, and a number of the Websites, have been developed primarily to provide an independent planning resource by insurance companies, banks, and brokerage firms. All you do is plug in the financial information they ask for, along with details about your plans for the future. They will figure out how much more you'll need to invest to have enough money to retire.

Some of the available Websites for retirement calculators are: (www.)

- **simpleplanning.com**
- **finance.yahoo.com/retirement**
- **money.cnn.com/retirement/index.html**
- **aarp.org/money/financial_planning/**
- **bloomberg.com/invest/calculators/retire.html**
- **fool.com/calcs/calculators.htm**

For more listings, use your search engine (google, ask, etc.) and ask for "retirement calculators." You'll get a bunch.

OK, YOU'VE DONE THE MATH — NOW WHAT?

Now that you have an idea of how much you'll need for retirement, it's time to implement a plan to get you there.

1. Enroll in your employer pension (sometimes this is automatically done with your employment). Make sure you understand your options and the type of plan it is. Get a preliminary report of what you might expect upon retirement. Also get information on how long you have to participate until you are vested in the plan and what happens if you leave your current place of employment, i.e, can your contributions be transferred, cashed out, etc.
2. If your employer doesn't have a plan, start your own IRA, 401(k), or another investment program with a bank, insurance company, brokerage house or investment advisor and begin to make deposits.
3. Establish an emergency fund in a local bank and deposit whatever you can, whenever you can until you have at least 3 months expenses on deposit.
4. If you have funds available you might want to consider other opportunities for investment, i.e. individual stocks, mutual funds, real estate or a sideline business. As with other investments you must decide upon the risk (See page 23) you want to take with each investment you undertake.

Remember the KEY to SUCCESSFUL RETIREMENT is to start your savings NOW.

Annual Reviews Help Keep Your Retirement Plan on Track

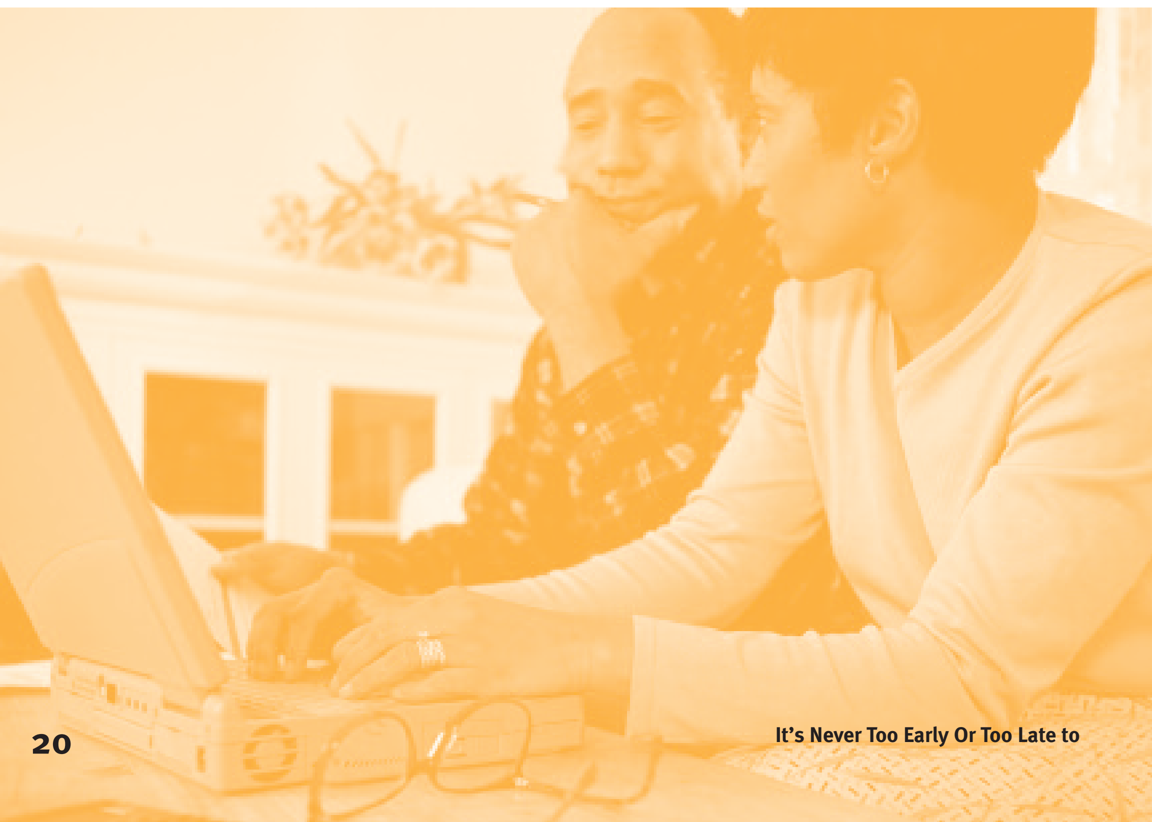
Life is change. Our needs, preferences and even goals are continually evolving — ever changing. Think about recent changes in your life. Do they include:

- Additions to your family?
- A change in your marital status?
- A decision to retire early?
- A change in your investment philosophy?
- A new job with higher or lower pay?

If so, these changes may have a great impact on our investment decisions. Because life is not static, your retirement needs and goals must be adjusted to compensate for change.

One of the best ways to help ensure that your investment and retirement goals are keeping pace with changes in your life is through an annual review.

If you do not feel comfortable in making and reviewing investment strategies, it might be a good idea to engage a financial advisor. Many financial and insurance firms offer such service at very modest fees. Check with your friends, colleagues or your employer to see whom they are using and who are satisfied with the services rendered.



The Critical Years

Hopefully by the time you have reached 50 you've laid a good foundation for your retirement. Perhaps you are even in a position to retire early at 55 or so. However, if you haven't laid that sound financial foundation, the next 15 years are the critical years.

So it is time to take bold action. You must radically improve your savings strategy fast — and perhaps adjust your expectations for retirement. But don't worry. With a bit of determination and creativity, your retirement can still be comfortable. Below are some tips.

Catch Up With Catch-Up Contributions

No matter what your age, it's never too late to start savings — or to start saving more. Conventional wisdom holds that most folks should save at least 10% of their annual gross income. But those facing an underfunded retirement should try to save significantly more than that.

As an added incentive, Uncle Sam lets workers age 50 and older save more than younger employees. "Catch-up contributions," as they're called, allow older workers to contribute thousands more to their 401(k), 403(b) and IRA each year. During your annual reviews, check to see what the IRS has set as the maximum contribution for the year ahead.

Don't Retire

Postponing your retirement —even by a few years—can have a huge effect on your retirement finances. Not only is each year an additional year to save — it's also one less year that you need to live off your retirement stash.

Fact is, many of today's workers won't retire until they're physically unable to work any longer — which very well might be in their 70s or 80s. But that doesn't mean they'll continue to work at the same job — or even in the same industry — that they toiled in during their prime breadwinning years. Many young retirees take part-time jobs, often working as a consultant in the industry they know well, or maybe even working in a low-stress service job.

Still others use retirement to reinvent themselves, pursuing a career dream not yet realized. For example, a number of United Way retirees have found teaching in a university or community college a great second career or they started their own new business.

Relocate

A lot of folks are reluctant to move during retirement while others actively seek out a new location for reasons of *quality of life:* climate, better health care, being closer to family, preference for a retirement community, being in a smaller community, a lower cost of living, volunteer or new employment opportunities, etc.

But for those on a tight budget, they might not have much of a choice. This is particularly true for those people who have significant equity in their homes — and little savings elsewhere. Consider the following points:

- the financial cost of upkeep,
- the physical cost of upkeep (your ability to do it yourself),
- local taxes where you live as compared to other locations, and
- you may be able to exclude the gain from the sale of your home from your taxable income.

Other Considerations for Your Retirement Planning

The preceding pages have largely dealt with the financial aspects of retirement planning. However, some aspects of that retirement planning need further elaboration and thought, particularly when you pass your 50th birthday. For instance:

Quality of Life: As you get older, you'll begin to think about the type of life you'll want in retirement. For some that may mean traveling to exotic places or taking up a hobby or interest that you enjoy but never really had the time to do while working. It might include moving to another community for reasons of a better climate, public safety and transportation, lower costs of living, being closer to family, better volunteer or employment opportunities or health care, etc. *Setting life style goals* will lay a foundation for determining just how much money you'll need to save during your preretirement years.

Illness: Nobody plans on being sick, but the reality is that as you grow older you are increasingly vulnerable to illness or injury. So it pays to plan ahead.

First, you need good health insurance. But you also need a steady source of income that you can activate when you need it, and can count on to last your lifetime — even if you live to be 100 plus.

You can use different types of insurance to help protect your financial health:

Long-term care insurance is designed to cover medical and nursing care over an extended period of time. Keep in mind, if you're considering this approach, that the premiums and cost of the insurance will be greater the later you buy. If you try to purchase a long-term policy in your 70s, for example, the premiums may be prohibitive. But if you buy earlier, and cheaper, the benefits your plan offers may be vulnerable to *inflation* since reimbursement amounts are often fixed. You should look for a plan that automatically boosts the benefits as time goes by or lets you buy additional coverage to offset inflation.

Disability insurance pays you a percentage of your salary if you can't work because of illness or injury, and **catastrophic illness insurance** covers your medical costs if you exceed the upper limit your regular health insurer will pay.

One alternative to insurance is to buy an **annuity** to provide income you can use to cover the costs of long-term care or disability should the need arise. Or you could arrange to use the annuity benefit to actually pay the premium for a long-term care policy. Another approach is to set up a medical savings account, much as you establish an account earmarked for education or retirement, and invest an amount equal to the premiums you'd pay for insurance. That approach may offer greater flexibility since you can use the money for other things if you remain healthy and independent, but there's no guarantee you'll accumulate the assets you'll need should you require extended care.

Of course the best “insurance” is to increase your chances of remaining healthy and really living in retirement. Here are seven common sense, but highly effective steps to help you increase your chances of remaining healthy:

- Stop smoking
- Control your blood pressure
- Eat a healthy, balanced diet
- Watch your weight
- Control your cholesterol
- Stay active — both mentally and physically
- Get a complete annual physical

Power of Attorney: A power of attorney (POA) is a common estate-planning document that allows another person (known as the agent) to act on your behalf (the principle). Many people mistakenly believe that their spouses have the automatic right to take over the decision making, but in many situations they do not. Generally, POAs are considered nondurable or durable. A nondurable POA is usually temporary, and terminates if you, the principle, becomes legally incompetent. You may find that a nondurable POA is useful during times when you are on extended travel, for instance, and need someone to take care of business or legal matters while you are gone. A durable POA is slightly different in that it continues in effect, even though you may become incompetent. This type of POA is more appropriate in situations where you become ill or incapacitated, and are unable to handle your finances on a long-term basis. A health care POA is yet another type of document dealing with, as the name implies, situations where someone will need to make medical decisions on your behalf when you are unable to do so yourself.

Living Will: Though similar to a health care POA, a living will is a distinct legal document that describes a predetermined course of medical treatment you have chosen, thus taking the decision-making responsibility out of your spouse’s or other loved ones’ hands. Decisions such as, “How long do I want to stay on life support if my condition won’t improve?” can be difficult for loved ones to cope with. If you have strong feelings on such issues, it is best to put them into a legally binding contract such as a living will.

Careful forethought and planning for the otherwise unexpected will give you peace of mind and will be a lasting demonstration of your love for your family.

A Note on Investing, Risk and Strategies

All investments carry some sort of risk as there is no such thing as absolute safety. There are always factors you can't control — such as high inflation, a market downturn, currency inflation or political turmoil. Or you may have to sell when prices are down if you need the cash.

But some investments are more risky than others. Low-risk investments, including certificates of deposit (CDs), guarantee that you'll get your money back, plus interest. But you may not earn enough to offset inflation. Higher-risk investments, such as stock in a new company, aren't guaranteed. But if the company succeeds, your investment could someday be worth lots of money (i.e., getting in on the ground floor at Microsoft.) One way to offset some of the risk is diversification of your investments (such as seen on pages 10 to 11). You can select individual stocks or mutual funds to achieve the mix you feel comfortable with. Buying stocks or mutual funds is easy. Anybody can do that. The hard part is knowing when to sell. And very few people know how to do that! We've all made expensive mistakes — either missing the full upside by selling too soon, or taking a huge loss by holding a falling stock too long.

The Trailing Stop Strategy. In stocks, you must have a strategy that makes you methodically cut your losses and let your winners ride. Smart investors often use what is called a "trailing stop" strategy. That is to say, when buying a stock or a fund ask your broker (or do it yourself online) to set a trailing stop of 15-25% (or another percentage that you want to use). What that does is create a sell order when the price of the investment drops by the percentage set. Thus you never lose anymore than your established risk level. When the investment moves up in value the stop moves with it. For example, if your trailing stop is 25% and a stock you bought for $100 a share moves to $150 (a gain of $50) then suddenly starts to drop, a sell is made at $125. You've kept a profit of $25/share. (For more information on this strategy go to http://www.investopedia.com/articles/trading/03/080603.asp).

If you are using a financial advisor make sure he or she understands your risk level and is instructed to sell your investments at that stated level. In the event of a major market turndown (as happened in 2000) you'll need to consider: keeping your assets in cash, placing it in a bear market fund (a fund designed to increase in value in market turn downs), or in US Treasury notes or other instruments with a guaranteed return.
You could do a combination of these choices.

Explanations

Reverse Mortgage: A loan against your home that you do not have to pay back for as long as you live there. With a reverse mortgage, you can turn the value of your home into cash without having to move or to repay the loan each month. The cash you get from a reverse mortgage can be paid to you in several ways:

- all at once, in a single lump sum of cash,
- as a regular monthly cash advance,
- as a "creditline" account that lets you decide when and how much of your available cash is paid to you, or
- as a combination of these payment methods.

No matter how this loan is paid out to you, you typically don't have to pay anything back until you die, sell your home, or permanently move out of your home. To be eligible for the most reverse mortgages, you must own your home and be 62 years of age or older.

IRS Approved Tax Deferred Savings Plans: These plans include traditional IRAs, Roth IRAs, employer sponsored 401(k) and 403(b) plans.

- **Traditional IRA:** Anyone can establish an IRA with a bank, insurance company or other financial institution. You arrange to set aside a portion of your earnings to build retirement income. Your contributions are tax deductible.
- Roth IRA: This is a type of individual retirement variable accumulation annuity that allows you to receive distributions on a tax-free basis. The Roth IRA does not provide up-front income tax deductions for contributions like there can be with a Traditional IRA. All contributions to a Roth IRA are made on an after-tax basis, but the Roth IRA provides the opportunity for tax-free investment earnings and tax-free distributions.
- **401(k):** This is the most widely used employer sponsored retirement savings plan. With this plan employees defer some portion of their salary or wages and do not pay taxes on that contribution to the 401(k). Employers, depending on the plan, may contribute an amount equal to the employees contribution to the 401(k).
- **403(b):** These plans are similar to the 401(k) but are available only to public institutions or charitable entities tax exempt under section 501(c)(3) of the Internal Revenue Code. The biggest difference between the two is eligibility. While the 401(k) covers private-sector workers, only employees of the above cited institutions can use a 403(b) account. Unlike 401(k) participants, 403(b) participants cannot invest in individual stocks. Instead their choices are:
  — Annuity and variable annuity contracts with insurance companies
  — A custodial account made up of mutual funds, known as a 403(b)(7)

Generally, 403(b) participants can only contribute to the vendors offered or sponsored by their employers.

Will: A legal document that dictates how to distribute your property after your death. If you don't have a will, you die intestate, and the law of your state determines what happens to your estate and your minor children. The probate court governs this process.

Living Will: This is a legal document that expresses your wishes about being kept alive if you're terminally ill or seriously injured. (See definition on page 22.)

Living Trust: This legal document that places designated assets of yours into a trust. The property in the trust passes to your heirs without having to go through probate. It is not a complete substitute for a will as, for example, it does not allow you to name a guardian for a child. It is definitely a cheaper and more efficient way to transfer property at death, especially large-ticket items such as a house, business and investments.

Pitfalls to Avoid

Every endeavor that projects itself into the future is fraught with pitfalls. Here are a few of those that are inherent in planning your retirement.

Not Saving Enough. You may have heard that you should save 10% of your income. That's a fine rule of thumb, but it ignores an important question: What are you saving for? If the answer is "I'm saving so I can retire at age 50 on my own beachfront property," 10% may not be enough — especially if you start saving at age 40. *Take the time to match your savings with your goals.*

Ignoring Gifts from Uncle Sam. You'd never turn down a dollar if it were offered with no strings attached. That's what you're doing if your employer offers a 401(k) or similar retirement savings plan with an employer match and you're not participating. Or if your employer doesn't offer such a program and you don't create your own IRA. The money contributed is tax free as it grows and it reduces you current taxes.

Feeling "too old," Thinking it's "too late," Fearing that the market's "too risky." There are some excuses that can't be accepted. If you think you are too old to save, or that it is too late to make a difference in your future, or that the market is just too risky for your long-term stash, we ask you to reconsider. And if you are one of the one-third of all Americans who contribute nothing to your retirement account, we beg you to change your way of life. Even if your contributions aren't matched, you'll still reap hundreds to thousands of dollars' worth of tax savings while doing something that's good for your financial future.

Perhaps you think it's too late to make a difference in your golden years. Nothing could be more untrue. Sure, the earlier you start, the better off you are. If you've already passed those formative 20s and 30s, let's just say, "Better late than never."

Worried that the pittance you have available to invest this year won't amount to much in the future? Let's see how far 2003's average tax return could get you. If a 40-year-old contributed that $1,967 refund annually for 25 years to an IRA and earned an average 8% a year, she'd add almost $165,000 to her nest egg. Hardly a pittance.

Maybe you're apprehensive about investing right now — the stock market is too volatile for you to add to your retirement kitty. There is no guarantee that the market will go up the first day, month, or even year that you invest in it. But there is one guarantee: *doing nothing at all will not provide for a comfortable retirement.*

Investing Like it was Last Year. We're sure that, right after Father Time rang in the new year, you kissed your beau, considered your resolutions, and wondered whether the contribution limit on your retirement account increased. *Ahem.*

Ok, we'll give you a pass for the first few days of the new year. But if you're still contributing only the same amount to your 401(k), 403(b) or IRA — all we have to say is: "that's so last year."

Regardless of the type of tax deferred account you hold, the Federal Government imposes limits on contribution amounts. Starting in 2008 these limits will all be indexed to rise in increments of $500 depending upon the level of inflation. *So make sure to adjust your contribution (if you're at the limit) yearly to help build that retirement fund.*

If you're behind on your savings, "catch-contributions" can go a long way toward building a more beautiful retirement. If you're 50 and up, go ahead and invest like your age.

One way to "catch-up" that proved to be helpful for one UWRA member was to start in his late 40s putting his pay raises into his 403(b). That raised the amount he was able to save and to put in the full catch-up amount that was available. He commented, "we intentionally held down our standard of living for years but I can tell you that after almost 13 years of retirement it was worth it!"

Resources

The best place to find current resources to help you in your retirement planning is the Internet. For example if you type in "retirement planning" you get almost 200 citations from which to choose. That's exactly what we did in preparing this booklet. Data abounds and it can be confusing. So we've listed a few sources that you might want to check out first.

Internet Sources:

American Savings Education Council, www.choosetosave.org. This site includes information about the programs of ASEC to promote savings as well as:

- ***Ballpark Estimate***. A worksheet designed to help individuals quickly identify approximately how much savings they will need to live comfortably in retirement.
- ***Calculators.*** A wide variety of calculators on subjects ranging from auto to stocks. Check out "retirement and savings."
- ***Brochures.*** Under this choice you find a variety of subjects. All are worth looking at, but particularly, check out "The Power to Choose."

MetLife, www.metlife.com. An attractive site with a wide variety of topics. Under *Life Advice Series* you will find a comprehensive assortment of advice items. Of particular note check on *Financial* and *Health*. Under the box on *Retirement* you also find a variety of topics related to retirement planning and tools to help you calculate your needs.

Mutual of America, www.mutualofamerica.com. This site contains a wealth of information that ranges from retirement planning to managing your retirement income. Also explains the various financial instruments for savings (IRAs, Roth IRAs, annuities, etc.).

MSN Moneycentral, http://moneycentral.msn.com/retire/home.asp.
This site contains many articles on retirement financial issues as well as a download of a trial of planning software.

CBS Marketwatch, http://cbs.marketwatch.com/pf/retirement. The retirement section of this financial site is loaded with articles on the latest development, resources, and issues. There are also many articles on financial issues relating to retirement.

About.Com, http://retireplan.about.com. Useful set of links to many resources as well as articles on timely issues.

MotleyFool.Com, http://fool.com/retirement.htm. This is an excellent site. It covers the waterfront in retirement planning.

Social Security Online, http://www.ssa.gov. Provides information about Social Security benefits. Of particular interest are:

- ***Retirement Benefits* (http://www.ssa.gov/pubs/10035.html)** a good booklet about Social Security retirement benefits.
- ***Social Security Retirement Benefit Calculator* (http://www.ssa.gov/retire2/)** Calculate your retirement benefits using different retirement scenarios, find out how certain types of earnings and pensions can affect your retirement benefits, discover your options if you are close to retirement age, and more. Provides three options for calculators with progressively more precision but requiring greater user effort.

Benefitscheckup.Org, http://www.benefitscheckup.org. A free service that identifies federal and state assistance programs for older Americans which you or a loved one may qualify for. The questionnaire takes 10 to 15 minutes to complete. Then, BenefitsCheckUp explains what benefit programs you may be eligible for and how to apply for them. NOTE: BenefitsCheckUp is completely confidential. It does not require you name, address, phone number, SS#, or other information that could be used to identify you.

The Investor's Clearinghouse, http//www.investoreducation.org. Drawing on investor education materials from such diverse groups as the Investment Company Institute, the National Association of Securities Dealers, the American Association of Individual Investors, the U.S. Securities and Exchange Commission and the Securities Industry Association, the Alliance for Investor Education Website includes a number of novel features, including an interactive investment knowledge quiz that directs those who supply wrong answers where to get more information. Features two dozen topic area subheadings directing visitors to the best information available from the Alliance's 17 members. Includes a section on the special concerns of older investors.

Tools2Retire.com, http://www.tools2retire.com. Includes calculators, articles, newsletters, and more. Developed by a financial services company.

Crash Course in Wills & Trusts, http.//www.mtpalermo.com. Developed by a private attorney based on his adult education course, this site contains a lot of practical advise. The coverage is broader than the name implies — including powers of attorney, advance medical directives, life insurance & long term care insurance.

AARP, http:/www.aarp.org. This site contains a variety of information of use to older folks. Of particular interest is the seminar on reverse mortgages. Check on Personal Finance and you'll see it listed. A good book published by AARP is entitled *Think of Your Future: A Retirement Planning Workbook*. It can be purchased from amazon.com for $21.95 (new) and much less as (used). At the AARP website if you click on AARP Bulletin, then on Your Money, you will find a number of items of use in the toolkit: Retirement Calculator, Asset Allocation, Debt Reduction Planner, Location Scout (find the best place in US to live), Reverse Mortgage Calculator, and Financial Planner Questionnaire (what to ask a planner).

U.S. Department of Health and Human Services
http://www.ahrq.gov/ppip/50plus/index.html. This will take you to an excellent publication: *The Pocket Guide to Staying Healthy at 50+* which can be downloaded.

National Association of Insurance Commissioners offer a series of pamphlets at **http://www.naic.org.** Go to "for Consumers" and select your Life Stage. Also has consumer alerts that are worth noting.

U.S. Department of Labor has several items of interest at **http://www.dol.gov/dol/topic/retirement/retirementsavings.htm.** Included are: *Top 10 Ways to Prepare for Retirement* and *Women and Retirement Savings*.

International Living, www.internationalliving.com. If you're interested in traveling or living abroad you'll want to check out this site. Click on *"Free Reports"* for a wide variety of reports/topics.

United Way Retirees Association

The United Way Retirees Association (UWRA) is a 501(c)3 organization whose mission is to improve the quality of life for communities served by United Way and UWRA members. The UWRA membership, composed of both former and current United Way staff, includes approximately 550 individuals nationwide. We are committed to providing programs that support and strengthen United Way communities and enrich the lives of our members. The generous gifts of time and talent of our volunteers and the financial support of both our members and the United Way community help us work toward these ends. Our volunteers are freely giving their time and expertise because they truly believe in United Way's mission and want to help as an extension of their career.

Through our organization our volunteers are given opportunities for continuing service to the United Way field through the UWRA Service Corps. Some of the activities the UWRA Service Corps are involved in include Endowment and Planned Giving assistance to Small City United Ways, Mentoring new UW Executives/Staff, Crisis Response to UW communities, Interim Staff Assistance, a Quickstart Guide for new UW Executives, UW Comprehensive History Book (*Grassroots Initiatives Shape an International Movement*), and the Pre-Retirement Planning Program for the United Way system.

The Pre-Retirement Program, of which this booklet is the beginning, is funded by the UWRA Endowment Fund and would not be possible without using the talents of United Way retirees and staff who have so generously given their time, resources and expertise to make this happen. Endowment monies (intended to increase our impact on communities, the profession, and fellow retirees and broaden and strengthen our mission in ways not possible though annual revenue) will also aid in funding other targeted priorities to assist UWRA members and the UW field.

In addition to opportunities to participate in the UWRA Service Corps, UWRA membership provides: a quarterly newsletter with news about UWRA, UW colleagues and the United Way field; invitations to periodic regional and local events; connections to group rate health and insurance benefits; a Free Discount Prescription Drug Card and access to United Way Online (with UWA approval). In addition a UWRA email listserv facilitates the exchange and sharing of ideas, questions, and answers among UWRA members and provides the UWRA office a vehicle to post relevant information regarding volunteer opportunities, interim paid UW positions, Webinars, upcoming events, etc.

To find out more about UWRA visit the UWRA website at **www.uwra.org** or call 800.UWA.2757, Ext. 621. We are committed to our members—the people that helped make the UW system what it is today—and to assisting in the ongoing transformation of United Way into a community impact organization.

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