Financial Fitness for the Best Rest of Your Life:

What Older Adults Need to Know About Money


Development of this newspaper tabloid was supported with a grant from the Calvin K. Kazanjian Economics Foundation, Inc.
The New Jersey Coalition for Financial Education (NJCFE) is a 501(c)(3) non-profit organization dedicated to improving the personal financial literacy of New Jersey’s residents. As a state affiliate of the Washington, DC-based Jump$tart Coalition for Personal Financial Literacy, the NJCFE promotes teaching personal finance to people of all ages. The Coalition believes that all citizens of New Jersey must have the financial literacy necessary to make informed financial decisions.

The NJCFE has approximately 100 representatives from government agencies, schools and colleges, businesses, and non-profit organizations that provide financial education and related services. Members meet bimonthly to plan programs and share resources. During the past past 14 years (2002-2016), the Coalition has received almost $500,000 in grants and donations for financial education projects such as teacher training, a Financial Health Day held in Teaneck, NJ, in 2005, and a newspaper insert for young adults.

In 2003, the New Jersey Coalition for Finance Education produced a newspaper insert called Money…What Young Adults Need to Know. Over 50,000 copies were distributed to financial educators, students, and parents statewide. We are now pleased to present a sequel that addresses five financial issues of interest to older adults: Social Security, health and long-term care insurance, later-life investing, creating a retirement “paycheck,” and estate planning. With more baby boomers turning 65 every year, the timing couldn’t be better! They join 1.3 million older adults already living in New Jersey.

This publication will teach you the most important information you need to know about each of the financial topics listed above, as well as important economic principles such as scarcity, supply and demand, and opportunity costs. It includes self-quizzes, glossaries, resource lists, and action steps to help you turn knowledge into action. The rest is up to you. Today is the first day of the rest of your financial life, so make the most of it!

Dear Reader,

Are you confused and afraid of the financial decisions that lie ahead? You are not alone. At no other time in life do people have as many financial decisions to make as they do at age 50 and beyond. Some examples of key financial issues for older adults include:

- Catch-up retirement-planning strategies
- Decisions about the timing and location of one’s retirement
- Receipt, and possible taxation, of Social Security benefits
- Pension plan distribution decisions (e.g., annuity or lump sum)
- Required distributions from retirement savings plans
- The selection and purchase of long-term care insurance
- The selection and purchase of Medigap policies and Medicare Advantage and Medicare Part D plans
- Investment withdrawals to provide regular income
- Preparation of estate planning documents…and more!

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It was written by Dr. Barbara O’Neill, CFP®, Extension Specialist in Financial Resource Management for Rutgers Cooperative Extension, and Jane White, President of the Retirement Solutions Foundation, based in Madison, NJ.

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www.bnyreverse.com
Most older adults are, or will become, Social Security beneficiaries. Are you one of them? According to the U.S. Census, Social Security is the single largest income source for Americans age 65+. You may wonder when you should start collecting benefits. Reduced benefits can be claimed as early as age 62, while full benefits are available at full retirement age (FRA). If you start to collect early, the amount you receive each month is less but you will get paid for a longer period of time. FRA is 66 years for those born from 1943 to 1954.

Nearly 70% of Social Security recipients claim benefits before reaching FRA. However, many financial experts advise that, barring a health crisis or immediate need for cash, you consider waiting for full benefits if you believe you will live to your late 70s or beyond. If you postpone benefits, you will receive a larger monthly check, which will pay off if you live long enough to make up for the delay. In addition, when someone who waits to collect benefits eventually dies, the financial loss to their surviving spouse is less dramatic than if he or she retired early.

The economic principle of scarcity certainly affects Social Security. Changes in future benefits are inevitable as the system’s cash surplus begins a rapid decline with the retirement of about 77 million baby boomers. In 30 years, there will be only two workers for every beneficiary, compared with five in 1960. Many proposals have been made to stabilize Social Security. The options that will be selected are unknown at this time, but we do know this: the longer the delay in enacting a solution, the more drastic that action is likely to be. What should you do? Stay tuned, increase your personal savings, and be prepared for changes to come!

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**How Much Do You Know About Social Security?**

1. If you earn average wages during most of your career, how much income can you expect from Social Security in retirement?  
   A. About 25% of pre-retirement earnings  
   B. About 40% of pre-retirement earnings  
   C. About 60% of pre-retirement earnings

2. What is the effect of collecting Social Security benefits before your full retirement age?  
   A. Benefits are reduced by up to 50%, depending upon year of birth  
   B. Benefits are reduced by up to 30%, depending upon year of birth  
   C. Benefits are not affected by early retirement

3. What is the effect of choosing to collect Social Security benefits after your full retirement age?  
   A. Workers earn delayed retirement credits of up to 8%, until age 70  
   B. Workers earn delayed retirement credits of up to 6%, until age 75  
   C. Workers earn delayed retirement credits of up to 4%, until age 80

4. The full retirement age for persons born in 1946 who will turn 65 in 2011 is  
   A. 65  
   B. 66  
   C. 67

5. What are the benefits if you continue to work after full retirement age without collecting Social Security?  
   A. Lower-earning years are replaced by higher-earning years to calculate benefits  
   B. Delayed retirement credits  
   C. Both A and B

6. The Social Security provision that adjusts benefits annually to keep pace with inflation is the  
   A. Earnings test  
   B. Quarters of coverage  
   C. Cost-of-living adjustment (COLA)

**Answers:**  
1. B: The benefits of average earners (about $37,000) replace about 40% of pre-retirement earnings.  
2. B: The reduction in benefits for early retirees is gradually increasing from 20% to 30%.  
3. A: Delayed retirement credits up to age 70 will be 8% for workers born in 1943 and later.  
5. C: Later retirees will receive delayed retirement credits for each month they forgo benefits up to age 70.  
6. C: Benefits are automatically adjusted each year based on increases in the Consumer Price Index.
What You Absolutely Need to Know About Social Security

To be considered “fully insured” and eligible for retirement and survivor benefits, you must pay Social Security taxes for 40 calendar quarters (equivalent to 10 years) of employment. To receive a quarter of credit in 2016, you must earn at least $1,260 in a calendar quarter (three-month period of time) or $5,040 for four quarters throughout the year.

If you collect Social Security when you reach full retirement age, there is no earnings limit that reduces your benefit, no matter how much you earn. If you take your benefits before you reach full retirement age (FRA), $1 of benefits is withheld for every $2 over $15,720 (2016 figure).

It is usually wise to postpone Social Security benefits if you have substantial earnings, have not reached FRA, and do not need additional money for current living expenses. Otherwise, benefits will be permanently reduced, included in income tax calculations, and subject to the earnings limit.

Contact Social Security about three months before you retire. Be prepared to provide the following documents: Social Security card, birth certificate, proof of citizenship (if not born in the U.S.), spouse’s birth certificate and Social Security number, marriage certificate, military discharge papers (if applicable), and your most recent W-2 form or tax return (if self-employed).

Action Steps

Review your annual Social Security Earnings and Benefit Estimate Statement for accuracy, while working. Report any incorrect information to Social Security by calling 1-800-772-1213.

Determine how Social Security fits into your overall retirement income picture. If you are currently retired, calculate the percentage of your total income that comes from Social Security.

If you are working and planning for retirement, complete the American Savings Education Council’s Ballpark Estimate worksheet, available at www.asec.org. Then develop a plan to cover the gap between Social Security benefits and the amount of income that you’ll need. For example, start or increase contributions to a tax-deferred employer retirement plan, such as a 401(k), and/or to a Roth IRA.

Think about Social Security if you are getting divorced. The timing of the divorce can greatly affect your financial status. The magic number is “10”; i.e., if you were married at least 10 years and don’t remarry, you can qualify for benefits based on your ex-spouse’s earnings when you both reach age 62. You will receive the higher of benefits based on your own work history or half of your ex-spouse’s benefit, regardless of whether or not he or she has remarried.

Glossary of Social Security Terms

Delayed Retirement Credit — Percentage increase in Social Security benefits for each year that benefits are postponed between full retirement age and age 70.

Earnings Limit — The amount of income, adjusted annually for inflation, that Social Security beneficiaries under FRA can earn without having $1 of benefits withheld for every $2 over this amount ($15,720 in 2016).

Full Retirement Age (FRA) — The age at which Social Security beneficiaries receive a full (unreduced) benefit. For many years, FRA was age 65, but it has been gradually increasing and will reach age 67 by 2027 when those born in 1960 reach this age.

Social Security Resources

Social Security Administration: 1-800-772-1213 or www.socialsecurity.gov

Social Security Administration, Earnings and Benefit Estimate Statement: www.ssa.gov/mystatement

Social Security Administration, Frequently Asked Questions: www.ssa.gov/planners/faqs.htm

Social Security Administration, Online Benefit Application: www.ssa.gov/applyforbenefits

Social Security Administration, Retirement Benefit Calculators: www.ssa.gov/planners/calculators.htm
Social Security Planning Worksheet

Complete the form below using information from the Social Security Web site, [www.socialsecurity.gov](http://www.socialsecurity.gov), and/or your most recent annual Social Security Earnings and Benefit Estimate Statement. This form is mailed annually to all workers age 25 and older about three months before their birthday and provides current estimates of retirement benefits at various ages, as well as survivors’ and disability benefits. Use this information about your Social Security benefit in print or online retirement savings calculations, such as the Ballpark Estimate described on page 4. For Social Security information by telephone, call 1-800-772-1213.

<table>
<thead>
<tr>
<th>Social Security Feature</th>
<th>Self</th>
<th>Spouse/Partner</th>
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<tbody>
<tr>
<td>My full retirement age (FRA) is</td>
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<tr>
<td>My estimated Social Security benefit at age 62 is</td>
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<td></td>
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<td>My estimated Social Security benefit at FRA is</td>
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<td></td>
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<tr>
<td>My estimated Social Security benefit at age 70 is</td>
<td></td>
<td></td>
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<tr>
<td>Number of years of reported career earnings</td>
<td></td>
<td></td>
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<tr>
<td>Number of reported quarters of coverage</td>
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The Safest, Easiest Way to Receive Your Social Security Benefit Is With Go Direct

The New Jersey Coalition for Financial Education is pleased to support Go Direct, a national campaign sponsored by the U.S. Department of the Treasury and Federal Reserve Banks to motivate more Americans to choose direct deposit for their federal benefit payments, such as Social Security.

Direct deposit is faster, easier, and more convenient than checks. It also is far safer. Last year, half a million Americans reported delays or other problems getting their checks. In contrast, direct deposit totally eliminates the risk of lost or stolen checks because money goes directly into a recipient’s account. Direct deposit gives recipients faster access to their money and more control, too. They know their payments will be in their accounts at exactly the same time each month, and they can access the funds virtually anytime and anywhere.

Moreover, direct deposit saves taxpayers millions of dollars. Despite the growing popularity of direct deposit, the Treasury still issues more than 150 million benefit checks. In New Jersey alone, more than 3.6 million checks are mailed annually. If Go Direct was used, the potential savings would be $2.7 million.

Signing up for Go Direct just makes sense—and it's easy. Simply call the Go Direct toll-free helpline at (800) 333-1795 (English and Spanish) or go online to [www.GoDirect.org](http://www.GoDirect.org) or [www.DirectoASuCuenta.org](http://www.DirectoASuCuenta.org). Or, visit your local bank, credit union or Social Security office and ask to enroll in direct deposit.
Many people make health and long-term care insurance decisions after age 50. You may be one of them. The availability and cost of health insurance is a key factor if you retire before you are eligible for Medicare. About a third of early retirees have employer-sponsored coverage. Others must find coverage or be married to someone with health benefits. Going without insurance in later life should not be considered an “option.” Why? First, medical expenses and the incidence of life-threatening diseases generally increase with age. Second, it’s a big gamble. About half of all personal bankruptcies are associated with unpaid medical bills.

Medicare covers people age 65 and over, those under 65 with specific disabilities, and people of all ages with permanent kidney failure. Many beneficiaries also purchase supplemental (Medigap) policies to pay expenses that Medicare doesn’t cover. Medicare coverage consists of these distinct components:

◆ **Part A** covers inpatient hospital services. It is premium-free for most Medicare beneficiaries because it is paid for by payroll taxes collected from employers and those currently working.

◆ **Part B** The standard monthly premium for Part B coverage is $104.90 for many single participants earning $85,000 or less and married couple participants earning $170,000 or less. Others in this income bracket pay $121.80 per month. Higher earners pay monthly Part B premiums ranging from $170.50 to $389.80 based on their modified adjusted gross income and tax filing status (2016 figures). An additional surcharge for Part D prescription drug coverage also applies.

◆ **Part C** (Medicare Advantage) provides hospital and medical coverage through a managed care plan (e.g., through health maintenance organizations and preferred provider organizations).

◆ **Part D** is a voluntary outpatient prescription drug benefit offered by private insurance plans. Beneficiaries pay a monthly premium, a yearly deductible, and part of the cost of prescriptions (i.e., co-payments). Part D options include stand-alone prescription drug plans and drug coverage through Medicare Advantage plans.

Because of the increase in average life expectancies, the potential cost of long-term care (LTC) has become a major financial risk. Long-term care covers a wide range of services from assistance at home with daily activities to care in a nursing home. The best time to buy a policy is generally age 55 to 60. If you wait too long, premiums increase significantly and/or you could become uninsurable through some type of medical diagnosis. Premiums are lower in your 40s, but you could be paying for a long time before coverage is needed.
What You Absolutely Need to Know About Health and Long-Term Care Insurance

- Medigap policy costs for the same type and amount of coverage (i.e., plans A through J) can vary greatly among insurance carriers. You need to shop around.

- COBRA benefits can be a “stopgap” until new health insurance (e.g., a new employer’s policy or Medicare) is secured. For example, a worker can retire at age 63½ and pay COBRA premiums for 18 months until Medicare eligibility at age 65.

- Nearly half of all Americans will need long-term care at some point in their lifetime. Those most at risk are single individuals, women, those who have no available support system living within 25 miles, and those who have had frequent falls and bone fractures, serious heart or lung problems, or a stroke.

- Key features to consider in the selection of a long-term care policy include the amount of daily coverage, the length of coverage (e.g., 3 years versus lifetime benefits), the types of benefits provided (e.g., home health care), and the elimination (waiting) period. Also important are the method of making inflation adjustments and the number of activities of daily living (ADLs) that cannot be performed in order to qualify for benefits.

Glossary of Health and Long-Term Care Insurance Terms

- **Activities of Daily Living (ADLs)** — Common daily tasks (e.g., eating) that, when they are unable to be performed, can serve as a “trigger” to obtain benefits from a long-term care insurance policy.

- **COBRA** — Acronym for Consolidated Omnibus Reconciliation Act, a law that provides workers in companies with 20 or more employees an option to purchase continued group health insurance upon separation from work at their own expense.

- **Elimination Period** — The number of days (e.g., 90 days), starting from the date of an insurable event, before benefits are paid on certain types of insurance policies (e.g., disability and long-term care).

- **Long-Term Care Insurance** — Type of insurance that covers the cost of support services (e.g., home health care and nursing home care) when someone is unable to perform basic activities of daily living.

- **Medigap Insurance** — Standardized policies (ranging from A to J, in order of increasing benefits) that are sold to persons age 65 and over to pay for expenses not covered by Medicare.

- **State Health Insurance Assistance Program (SHIP)** — A state-run program that provides free information and counseling about senior health insurance issues. See information about the New Jersey SHIP on page 8.

Action Steps

- Apply for Medicare within three months of your 65th birthday. Also contact your company human resources office to understand how the organization’s health insurance or COBRA benefits can coordinate with Medicare. Pay attention to deadlines, such as the 60-day time limit to decide whether to elect COBRA coverage.

- Beware of health insurance fraud and identity theft. Treat Medicare/Social Security numbers like credit cards and don’t give out personal information, in person or by phone, until you are sure you can trust the person with whom you are talking. Shred all health-care documents before throwing them out.

- Contact your local State Health Insurance Assistance Program (SHIP) office, the NJ Department of Banking and Insurance, or a financial advisor for assistance with Medigap and long-term care insurance and for help in pricing policies if you need to buy individual health insurance.

- Begin a family conversation about long-term care and explore alternative options. For example, adult children may decide to jointly pay their parents’ long-term care insurance premiums rather than risk a nursing home stay that could deplete assets earmarked for their inheritance. Use statistics about long-term care or the bad experiences of others to bring up the topic gently.
Long-Term Care Insurance Policy Comparison Worksheet

Practice the "Rule of Three" by comparing at least three insurance policies with identical features (e.g., 3-year LTC insurance policies with a $180 daily benefit, a 5% compound inflation rider, and a 90-day elimination period). Use the worksheet below to list the cost and features of three different long-term care (LTC) insurance policies. Then compare the three providers to determine the best policy for you based upon their costs and features.

<table>
<thead>
<tr>
<th>LTC Policy Feature</th>
<th>LTC Policy Provider #1</th>
<th>LTC Policy Provider #2</th>
<th>LTC Policy Provider #3</th>
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<tbody>
<tr>
<td>Services covered (e.g., home care, adult day care, custodial care)</td>
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<tr>
<td>Amount of daily benefit</td>
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<td>Length of coverage</td>
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<td>Elimination period</td>
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<tr>
<td>Inflation adjustment</td>
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<tr>
<td>Requirement for coverage (e.g., number of ADLs)</td>
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<tr>
<td>Additional features (e.g., premium waiver after 90 days of coverage)</td>
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<tr>
<td>Annual/monthly cost</td>
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<tr>
<td>Insurance company financial stability rating (e.g., A.M. Best)</td>
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Health and Long-Term Care Insurance Resources

- Financial Aspects of Health: Rutgers Cooperative Extension’s Web site on financial topics related to health, can be found at www.rce.rutgers.edu/healthfinance.
- Long-Term Care: Sources of information about long-term care include AARP at www.aarp.org and the National Association of Insurance Commissioners (look for A Shopper’s Guide to Long-Term Care Insurance) at www.naic.org.
- SHIP: Information about the New Jersey State Health Insurance Assistance Program (SHIP) can be found at www.state.nj.us/health/senior/ship.shtml or www.shiptalk.org. The phone number for SHIP offices can be obtained from the county Offices of Senior Services, from 800-633-4227 (the CMS Medicare Help Line) or 800-792-8820 (the New Jersey Senior Citizen Hotline).
- ELDER CARE: To find a list of assisted living residences, as well as a checklist to help choose facilities, visit www.alfa.org. For information on what services a CCRC offers, costs, and choosing a CCRC, the following Web-sites offer helpful information: www.aarp.org, www.seniormanager.com and www.helpguide.org/elder/care.htm. For general questions about care options, consult a geriatric care manager. To find one in your area, call the National Association or Professional Geriatric Care Managers at 520-881-8008 or go to www.caremanager.org.

CCRCs: Taking Care of You in Sickness and in Health — and in Style

Sally and Jim Thigpen's retirement cottage overlooks a fishing pond. They do aerobics six days a week. One morning a week, Jim meets for breakfast with his buddies from ROMEO—Retired Old Men Eating Out—to swap stories. Does this sound like a cookie-cutter retirement community? Not quite. If either Sally or Jim develops congestive heart failure or becomes disoriented by Alzheimer’s disease, neither of their lives will be turned upside down. They live in a Continuing Care Retirement Community (CCRC), which provides “one-stop-shopping” for retired people.

Many CCRCs feature swimming pools, hotel-style dining rooms, libraries, and beauty parlors. However, it's the appeal of having on-site care that's the real lure. If you can't take care of yourself completely, you can move to the assisted-living unit, where you may need a nurse to give you medicine, but can eat on your own in the dining room. If, on the other hand, you’re felled by a stroke, you can move to the skilled nursing unit for more intensive medical care.

All this service and convenience comes at a six-figure price, however. You're essentially buying a "single premium all-inclusive long-term care policy." Monthly maintenance fees range from $200 to $250 on top of entrance fees ranging from $20,000 to $400,000. The fees vary according to such factors as location and size of the residence, amenities, type of plans chosen, and current likelihood of needing long-term care.

Sound like a big chunk of change? Look at it this way: You can use the proceeds of a home sale to finance a CCRC now, or you can (potentially) pay for the costs of long-term care expenses later. With a CCRC, monthly expenses don't increase if you have to be transferred to the nursing home unit because you've essentially prepaid for nursing home costs. To see if a CCRC is right for you, inquire about the costs of several nearby facilities. Then compare the cost of a CCRC to the average monthly base rate for an assisted-living facility (about $30,000 a year or $70,000 a year for a nursing home) if you aren’t covered by a long-term care insurance policy. Remember that paying for a CCRC also includes the cost of housing while other long-term care options do not.
Wondering how to invest your money as you get older? You’re not alone. Later-life investing advice is often full of contradictions. On one hand, older investors are frequently told to invest more conservatively than they did at a younger age (i.e., hold less stock and more bonds and cash assets in their portfolio). Still, accumulated assets may need to stretch three or four decades as life expectancies continue to rise. Over time, your retirement funds will be affected by both inflation and taxes. Purchasing power, especially for conservative portfolios that contain primarily bonds and CDs, will be significantly eroded.

Historically, stocks have provided the highest return of any asset class, especially in time frames of ten years or longer, making them an effective hedge against inflation. Yet, investing in stocks has its drawbacks if share prices decline during a long or severe market downturn. Retirees who need to make income withdrawals from assets may lack time to recoup investment losses. For this reason, many financial professionals recommend a gradual ramp-down of stock during retirement; e.g., starting out with, say, 50% to 60% of assets in stock during your 60s and gradually declining to 20% to 30% by your 80s.

Prior to your retirement, think “save” and “plan.” In 2016, workers can contribute up to $18,000 to tax-deferred employer retirement savings plans (e.g., 401(k), 403(b), and 457 plans), plus an additional catch-up contribution of up to $6,000 ($24,000 total) for persons age 50 and over by year-end. The maximum annual contribution for traditional and/or Roth individual retirement accounts (IRAs) is $5,500 in 2016, plus an additional catch-up contribution of up to $1,000 ($6,500 total) for persons with earned income age 50 and over. Thereafter, contributions will be adjusted for inflation. It generally makes sense to fund a tax-deferred employer plan up to the maximum match (e.g., 6% of pay), then a Roth or traditional IRA, then the remainder of savings allowed in a tax-deferred plan, and then annuities purchased with after-tax dollars.

How Much Do You Know About Investing in Later Life?

1. At what age are withdrawals required from tax-deferred retirement savings plans such as traditional IRAs, 401(k) plans, and 403(b) plans?
   A. 59-1/2
   B. 66
   C. 70-1/2

2. Which investment product can provide guaranteed income payments for life, at regular intervals, assuming the issuer is financially sound?
   A. Annuity
   B. Bond mutual fund
   C. Treasury bond

3. Distributions from Roth IRA accounts, open at least five years by investors age 59 1/2 or older, are
   A. Taxable at long-term capital gains tax rates of up to 15%
   B. Taxable at the investor’s marginal tax rate of up to 35%
   C. Tax-free because Roth IRAs are funded with after-tax dollars

4. As investors approach retirement age and begin to retire, their investment priority shifts from
   A. Tax-free investing to tax-deferred investments
   B. Bond mutual funds to stock mutual funds
   C. Asset accumulation to asset withdrawals for income

5. Which of the following is an advantage of tax-deferred employer savings plans, such as 401(k)s?
   A. In many cases, employer matching of the amount voluntarily contributed by an employee
   B. Federal income tax deduction for contributions and tax deferral of the contributed amount
   C. Both A and B

6. Examples of tax-deferred investment accounts for retirement savings are
   A. Mutual funds, CDs, and stocks
   B. 401(k)s, traditional IRAs, and annuities
   C. 529 plans, exchange-traded funds, and municipal bonds

Answers:

1. A: Upon reaching age 70-1/2, federal minimum distribution rules require withdrawals of a specific amount of principal annually (based on life expectancy) from tax-deferred accounts.
2. A: Annuities can be structured to guarantee a regular stream of income for the life of an individual or the joint lifetimes of a married couple. For this reason, many financial experts advise annuitizing 25% to 50% of your retirement portfolio to ensure a predictable lifetime income.
3. B: Federal income tax deduction for contributions and tax deferral of the contributed amount
4. C: Many financial services firms today provide services to help older investors calculate prudent asset withdrawal rates to avoid running out of money in retirement.
5. C: Both A and B are advantages of employer savings plans. Another is automatic payroll deduction.
6. B: Earnings on these accounts are generally not taxed until funds are withdrawn at retirement.
What You Absolutely Need to Know About Later-Life Investing

- Stocks and stock mutual funds have historically earned two to three times the return of bonds and cash equivalent assets (e.g., money market funds) over the long term, making them an effective hedge against inflation. The trade-off is a higher chance of loss. This risk can be mitigated with a diversified portfolio of different asset classes (e.g., stocks, bonds, and cash assets) and several types of securities within each.

- Investors should carefully consider how much risk they can tolerate emotionally and financially when developing their portfolio asset allocation plan. This is the percentage of funds in stocks, bonds, and cash equivalent assets (e.g., CDs). Portfolios should be rebalanced periodically to maintain their original weightings or to gradually ramp down to a more conservative portfolio as investors age. For a risk tolerance quiz, see www.rce.rutgers.edu/money/riskquiz.

- Tax-deferred plans, such as IRAs and 401(k)s, are not investment products, per se, but, rather, “umbrella” accounts into which specific investments are placed. Retirement plans with employer matching are especially attractive because employer matching is “free money” that should not be passed up, if possible.

- Rollovers of funds from one tax-deferred retirement savings plan to another must be completed within 60 days of the date of distribution of funds. Investors cannot move money from a 401(k) to a Roth IRA directly, however. Instead, they must roll over the 401(k) funds into a traditional IRA and then convert the traditional IRA to a Roth IRA, if eligible, and pay the appropriate amount of taxes due.

- To provide $1,000 of monthly income in retirement, investors need to set aside approximately $300,000. This means $600,000 and $900,000 for monthly withdrawals of $2,000 and $3,000, respectively. This guideline assumes a 4% annual withdrawal rate ($300,000 x .04 = $12,000 or $1,000 per month) throughout retirement, adjusted annually for inflation, as many experts advise.

Action Steps


- Consolidate retirement plans (e.g., IRAs) that are scattered among many financial providers. This will make it easier to track your investments and calculate mandatory minimum withdrawals.

- Absent major health issues, plan on living at least until your early 90s and invest for the long term. Your investment time horizon is the rest of your life, not your retirement date. Keep some stock in your portfolio to help maintain purchasing power. Consider stock index funds that track the market.

- Take advantage of all available investment opportunities before retirement, especially the catch-up contributions for investors age 50+ for tax-deferred employer plans and IRAs.
**Glossary of Investing Terms**

- **Annuity** — A contract with an insurance company in which the issuer agrees to make regular payments to an investor for life, or for a fixed time period, in exchange for a lump sum or periodic deposits.

- **Asset Allocation** — The placement of one’s investment capital within different types of asset classes (e.g., 50% stock, 30% bonds, and 20% cash).

- **Bond** — An IOU issued by a corporation or unit of government. Borrowers are promised a certain rate of interest for lending their money to the bond issuer and the return of their investment at a specified future date.

- **Mutual Fund** — An investment company that pools deposits from many shareholders and invests in a portfolio of securities in order to achieve the specific objectives of the fund (e.g., capital appreciation or income).

- **Portfolio** — The combined holding of stocks, bonds, cash equivalents, or other assets (e.g., real estate) by an individual, household, or investment company.

- **Stock** — A type of investment that represents a unit of ownership of a corporation.

- **Tax-Deferred** — Investments where income taxes are postponed until the time of withdrawal.

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**Investment Comparison Worksheet**

Use the worksheet below to list features of three different investments of the same type (e.g., fixed annuities, growth mutual funds, and bonds). Then compare the three investments to determine the best one for you.

<table>
<thead>
<tr>
<th>Investment Feature</th>
<th>Investment #1</th>
<th>Investment #2</th>
<th>Investment #3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate of return (recent or projected)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minimum initial investment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minimum subsequent investment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax advantages, if any</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Major investment risk(s)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commissions and expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other features</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Investment Fraud: How to Recognize and Avoid It

Financial fraud erodes the trust on which our entire financial system is premised. This issue is becoming more pressing because baby boomers will soon start retiring. As Willie Sutton is famous for saying that he robbed banks “because that’s where the money is,” older adults will continue to be a tempting target for securities fraud.

One challenge that older investors face involves how to fend off high-pressure sales pitches for legitimate, but often unsuitable, products. These include “free lunch” seminars that encourage seniors to purchase living trusts, variable and equity-indexed annuities, and other complex financial products. Often, investment products are not fully explained. For example, investors can lose money buying an equity-indexed annuity, especially if they need to cancel the annuity early and have to pay surrender charges.

The second challenge is avoiding outright scams. Fraud comes in many flavors — and fraudsters can turn on a dime when it comes to tailoring their pitches to capitalize on the latest trends. But most frauds are not new. Instead, they’re the same old con jobs wrapped up in new packaging. Two examples are “Ponzi” or pyramid schemes and “pump-and-dump” stock market manipulations.

A Ponzi scheme is a type of illegal pyramid scheme in which money from new investors is used to pay off earlier investors until the whole scheme collapses. In a pump-and-dump scheme, fraudsters drive up the price of a company’s stock (typically a micro-cap or penny stock) using false and misleading statements and then sell at a peak. Once the fraudsters quit touting the stock, the price typically plummets, leaving investors holding worthless or next-to-worthless securities.

The U.S. Securities and Exchange Commission maintains a Web page created specifically for older investors: http://www.sec.gov/investor/seniors.shtml. It provides links to information on investments that are commonly marketed to those age 50+, including variable annuities, equity-indexed annuities, and promissory notes. It also warns against the dangers of sales pitches by cold-callers and to the threat of affinity fraud — scams that prey upon members of identifiable groups, such as religious or ethnic communities, professional groups, or the elderly. To obtain a printed version of the Senior Care Package, call the toll-free number 1-800-SEC-0350.

Mandatory Withdrawals from IRAs: Frequently Asked Questions

When Must I Take a Mandatory Distribution?
You are required to take a distribution from your traditional IRA and other tax-deferred retirement plans (e.g., 401(k)s) once you reach age 70-1/2. This is referred to as the Required Minimum Distribution (RMD).

What Are the Rules?
If you are a participant in a traditional IRA who does not take distributions in the year you turn 70-1/2, you must begin to receive distributions from the plan by April 1 of the year following the year that you turned 70-1/2. You will also need to take the current year’s distribution by December 31 (i.e., two distributions in that first year).

How Do I Calculate My Required Minimum Distribution?
The account balances (as of the end of the preceding year) for all of your traditional IRA accounts are added together and then divided by an applicable divisor from a uniform table (see Publication 590, Individual Retirement Accounts, at www.irs.gov). The result is the minimum amount that you must withdraw. You can also take more than this amount. Part or all of the money you withdraw will be subject to federal income tax.

What Happens if I Fail to Comply?
Failure to take the RMD may result in the assessment of a 50% excise tax on the difference between the RMD amount and the actual amount distributed. This is a significant tax penalty.

Where Can I Learn More?
More information on required IRA distributions can be found in Publication 590, Individual Retirement Accounts. You can also visit the IRS Web site at www.irs.gov. Some IRA account administrators (e.g., banks and mutual fund companies) will help you figure your minimum distribution. For complex situations, you may need to seek the assistance of an accountant or attorney.
Creating a Retirement “Paycheck”

What is your greatest fear about retirement? If you’re like many people, you’re afraid of outliving your savings. That’s where the concept of creating a retirement “paycheck” comes in. Many research studies have found that retirees should withdraw no more than 4% to 5% of their retirement nest egg (assets) per year and adjust this amount annually for inflation. Conservative investors need to withdraw even less (e.g., say, 3%) to make their money last as long as they do. Feeling anxious? Let’s look at possible income sources besides Social Security:

- **Defined Benefit (Traditional) Pension Plan:** Benefits are calculated according to a formula based on earnings and years of service. Pensions are often converted to an annuity that provides lifetime income.

- **Defined Contribution Plan:** Examples include employer 401(k), 403(b), and Section 457 plans.

- **IRAs:** Personal tax-deferred retirement savings plans established outside of an employer plan or rollover IRAs created when workers change jobs and transfer 401(k) balances. Specific types of IRAs include:
  - Traditional IRAs funded with pre-tax dollar contributions (tax-deductible)
  - Traditional IRAs funded with after-tax contributions (non-deductible)
  - Tax-exempt Roth IRAs funded with after-tax dollar contributions.

- **Annuities:** Life insurance company contracts that make regular payments for life (single life or joint life expectancy of a married couple) or for a specified period in exchange for lump-sum or periodic deposits.

- **Taxable Accounts:** Investments such as stocks, bonds, and mutual funds funded with after-tax savings.

- **Other:** Examples include home sale proceeds, rental real estate, and income from a reverse mortgage.

Creating a retirement paycheck involves making tax-efficient asset withdrawals. Generally, this means first tapping taxable accounts since they were made with after-tax dollars and taxes have already been paid on annual earnings. Another good initial source of money is tax-free assets, such as municipal bonds. If possible, wait until age 70 1/2 to tap your tax-deferred accounts. This keeps taxes postponed and retirement assets growing.

Many older adults buy annuities so that they can be guaranteed lifetime income. You give an insurance company a lump sum or regular deposits in return for regular income payments until you die or for a specific period. However, these guarantees often come at a cost: high annual expenses, surrender fees (for early withdrawals), and annuity gains that are taxed at ordinary income rates. You can also “create your own annuity” by dividing your portfolio balance by your life expectancy. You might also consider investing in mutual funds, called lifestyle funds, which gradually shift portfolio investments into bonds or cash assets as shareholders get older.

How Much Do You Know About Creating a Retirement Paycheck?

1. Individual retirement accounts (IRAs) can include
   - A. Accounts in which you pay taxes on the earnings when you take the money out
   - B. Accounts in which the earnings are never taxed
   - C. Both A and B

2. In addition to the fact that there is no requirement to take minimum distributions once you reach age 70-1/2, an advantage of a Roth IRA over a traditional IRA for many people is
   - A. Money grows tax-free in the account
   - B. Withdrawals are tax-free
   - C. Both A and B

3. If a married couple decides to sell their house, they don’t have to pay capital gains taxes as long as certain conditions are met. They are
   - A. They’ve owned and lived in the house for at least two years and haven’t sold any other house during the past two years
   - B. The profit (capital gain) is $500,000 or less
   - C. Both A and B

4. A disadvantage of buying an annuity, as opposed to other investments, is
   - A. Annual expenses are higher and there are higher taxes on investment gains
   - B. There are surrender fees if you withdraw money during an initial time period
   - C. Both A and B

5. People who want the assurance that at least part of their retirement income is guaranteed for life should consider purchasing which type of investment?
   - A. An annuity
   - B. A Treasury bond
   - C. An index fund

6. Why do many financial experts recommend that retirees hold three to twelve months living expenses in cash assets such as bank CDs or money market funds?
   - A. For income in case Social Security checks are delayed
   - B. So stocks don’t need to be sold during bear markets to provide income
   - C. To hedge against inflation

Answers:

1. C: Earnings on traditional IRAs are taxed on withdrawal, while earnings on Roth IRA accounts, funded with after-tax dollar contributions, are not taxed if certain conditions are met.
2. C: Roth IRA advantages include tax-free growth of deposits and tax-free withdrawals (conditions apply).
3. C: The maximum capital gain exclusion for married couples is $500,000; homeowners must have lived in their home at least two of the last five years and must not have sold another home during the past two years.
4. C: Disadvantages of buying an annuity include high annual expenses charged by many insurance companies and surrender fees if you withdraw money soon after a purchase.
5. A: Annuity payments can be arranged to guarantee that payments last a lifetime.
6. B: During bear markets, retirees can tap cash assets rather than sell stocks at a loss.
What You Absolutely Need to Know About Creating a Retirement Paycheck

- When withdrawing money for retirement income, first make withdrawals from taxable or tax-free investments and leave tax-deferred accounts to grow as long as possible. Consider selling assets with the smallest gain or largest loss to minimize taxes. Increases in the value of assets held over a year are taxed at a lower rate as long-term capital gains.

- When a traditional IRA is converted to a Roth IRA, subsequent withdrawals become tax free if you’re over age 59-1/2 and have held the account for at least five years. However, taxes are owed on converted amounts (i.e., money transferred from a traditional IRA to a Roth IRA) during the year that a conversion is made. Income and other restrictions apply, so check with the IRS or an accountant.

- It’s wise to have a portion of your retirement nest egg in safe investments, such as CDs or money market mutual funds, to minimize investment risk as your time horizon gets shorter.

- The average expense on variable annuities is about 2% of assets. This means that on a $100,000 account, an insurance company would deduct $2,000 a year or $166 a month. Shop around for low-cost providers with below-average expenses.

Glossary of Retirement Paycheck Terms

- **Capital Gains Tax** — A tax on the earnings from the sale of an asset, such as stock or real estate.

- **Defined Benefit Plan** — A company pension plan through which retired employees receive a formula-based benefit based on their income and years of service.

- **Defined Contribution Plan** — A company retirement plan in which employees contribute to individual accounts (e.g., 401(k) plans) to both lower their tax liability and set aside money for the future.

- **Roth IRA** — A retirement savings plan in which contributions are not tax-deductible, but qualified withdrawals are tax-free. Single tax filers earning up to $95,000 and joint filers earning up to $150,000 can make contributions.

- **Traditional IRA** — A retirement savings plan in which there are no income limits, contributions may or may not be tax-deductible (depending on income and access to employer retirement savings plans), and growth is tax deferred.

Action Steps

- Calculate whether you can afford to retire. One general guideline is to determine whether you’ve accumulated 10 times your final pay in retirement savings. For more specific calculations, check several online calculators or consider hiring a certified financial planner.

- Take advantage of tax-favored investments, such as Roth and/or traditional IRAs. In addition, contribute as much as possible to your 401(k) or other tax-favored accounts at work.

- Consider consolidating all of your rollovers from 401(k) accounts into one or two accounts (Note: Rollover IRAs can’t be “commingled” with annually funded IRAs based on earnings.) This will reduce account management fees and make mandatory distribution calculations easier.

- Consider rolling over old 401(k) balances into an IRA. You’ll minimize the risk that your former employer will go out of business or will be acquired by another company and you’ll have a hard time tracking down the money.
Retirement Income and Expense Worksheet

Use the worksheet below to list your anticipated retirement income sources and expenses.

<table>
<thead>
<tr>
<th>Annual Income</th>
<th>Projected (Self)</th>
<th>Projected (Spouse)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distributions from tax-deferred accounts (e.g., IRAs)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earnings from full- or part-time work</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income from a reverse mortgage</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pension</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social Security</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other (e.g., rental income)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Annual Expenses**

| Clothing                                           |                  |                    |
| Entertainment                                      |                  |                    |
| Food                                               |                  |                    |
| Income taxes                                       |                  |                    |
| Insurance                                          |                  |                    |
| Medical expenses                                   |                  |                    |
| Mortgage or rent                                   |                  |                    |
| Property taxes                                     |                  |                    |
| Travel/Transportation                              |                  |                    |
| Other (e.g., gifts, grandchildren)                 |                  |                    |

**Resources**

- **AARP**: [http://www.aarp.org/money/financial_planning/retirement_income/making_your_money_1](http://www.aarp.org/money/financial_planning/retirement_income/making_your_money_1)
- **Profit-Sharing Council’s Retirement Calculator**: [www.401k.org/401kcalculator.html](http://www.401k.org/401kcalculator.html)
Are You Really Ready to Retire?

How much money do you need to retire? The answer depends on many factors, including the kind of lifestyle you are planning and where you plan to spend your retirement. Before you can figure out how much money you will need, you must figure out what kind of retirement you want.

The more you want to do, the more money you need to save. There are many places where retirees will find the cost of living is lower than it is in New Jersey. Taxes and cost of living vary quite a bit from state to state, and that can impact how far your retirement income goes. A good reference can be found at www.retirementliving.com under the heading “Taxes by State.”

As you plan for retirement, one of the things you need to do is calculate a budget. How much money is coming in and how much is going out? No one enjoys this process but, since retirement income tends to be more fixed than income from work, it is an important task. Calculating retirement income is not that difficult. You can get benefit estimates from the Social Security Administration and most pension plans.

If a 401(k) or other retirement savings plan, such as a 457 deferred compensation plan or 403(b) tax-sheltered annuity, factors into your income, contact the company that administers that plan to understand your distribution options. For any outside investments, consult a financial professional or contact the company that manages the investments.

On the other side of the ledger, look at your fixed expenses, such as taxes and utilities, and remember that these will always be there and will increase over time. You also have to be honest with yourself about how much money you spend. A good exercise is to keep a running record for a month of every dollar you spend. This can provide a good snapshot of what you might spend in retirement.

Remember that when we work, we spend a lot of money on weekends. Retirement can be like a seven-day weekend. Think of the big expenses as well. Is your home paid off or do you still have a mortgage? Are your children grown and out of the house?

Reverse Mortgages: What You Need to Know

Thousands of older homeowners have benefited from a reverse mortgage. For some, it is an excellent way to achieve greater financial peace of mind, independence, and security.

The Basics:
A reverse mortgage gives older adults the ability to remain in their homes while receiving extra cash based on their home equity. The homeowner must be 62 years of age or older and the home must be their principal residence. Any existing mortgage must be paid off (this is typically done from the money received from the reverse mortgage). There is no minimum credit or income requirement to qualify for a reverse mortgage and you can use the money for whatever purpose you choose.

How does it work? With your home as collateral, you can receive the money from the loan as a lump sum, in cash installments, as a line of credit, or any combination of these options. The amount you can receive is based primarily on your age, the value of your home, and the amount of equity in the home.

How is it different from a home equity loan? Reverse mortgages require no monthly mortgage payments. There are no income requirements. In most cases, credit history is not a factor either.

Can I wind up owing more than the home is worth? No. Reverse mortgages are “non-recourse” loans, which means the property alone stands for the loan amount to be repaid. In the unlikely event that the value of your home decreases, the amount you owe will be adjusted accordingly.

Will I still own my home? Yes. And you can live in it as long as you like because the loan doesn’t have to be repaid until you leave or sell the home. If you choose to sell, the loan is repaid with interest, and you or your heirs keep any remaining money.

All reverse mortgages are repaid with interest upon the sale of the home, the death of the last surviving borrower, or if the borrower moves from the primary residence. Three good sources of additional information can be found at the National Reverse Mortgage Lenders Association, www.nrmla.org, and the AARP web sites, www.aarp.org/money/revmort and www.rmaarp.com.

The decision to retire is one of the biggest decisions you will ever make. Make sure that you look at it from all angles. You only get one chance to do it correctly.
Many people postpone making plans to distribute their money and worldly goods (and, in some cases, to care for minor children) until it's too late. Unofficial estimates of the percentage of Americans who never write a will range from 50% to 75% of the population. Rock star Jimi Hendrix, who died in 1970, didn't have one and the result was a public court battle over his $80 million estate that took 34 years for the courts to settle.

The best way to tackle “will-avoidance” is to convince yourself that spelling out your wishes regarding property (and possibly dependents) after you’re gone is a gift that you give others. Dying intestate—legalese for “without a will”—may result in unnecessary hassles for heirs, on top of a painful loss. Tackling this task now will eliminate the expense and potential bad feelings that can result from this oversight. Your will also ensures that you make these decisions, not the state probate court system.

Choose an executor to settle your estate according to your wishes. Many attorneys recommend designating two executors—a family member or friend and a banker or an attorney with estate planning expertise. Make sure your choice of executor is willing to serve. If at all possible, hire a lawyer to prepare a will rather than write one on your own. To be valid, a will must comply strictly with state law. For example, in New Jersey:

◆ it must have at least two witnesses;
◆ both the individual drafting the will and the witnesses must be present at the signing of the will;
◆ each witness must see the others sign.

After drafting your will, keep it in a safe place—a fireproof container in your house or with your lawyer—and remember to revise your will if circumstances change. Keeping a will current is just as important as drafting one in the first place. Major life events such as marriage, the birth or adoption of a child, a death, or a change in the estate law are examples of circumstances in which revisions to your will or a new will are advisable.

Three estate planning documents are highly recommended: a will, a living will for health-care decisions, and a durable power of attorney for financial affairs. Trusts may also be considered to professionally manage assets, particularly for minors or older children unable to care for themselves.

How Much Do You Know About Wills and Estates?

1. A typical will spells out
   A. Who will inherit your property
   B. Legal guardians of minor children or dependents who can’t care for themselves
   C. Both A and B

2. The duties of an executor are to
   A. Decide who inherits a deceased person’s property
   B. Manage and settle an estate according to the instructions of the deceased
   C. Both A and B

3. Once your will is executed, what other steps should you take?
   A. Update the will if you remarry
   B. Update the will if you move out of state
   C. Both A and B

4. The court-supervised process that oversees distribution of assets of people who die is called
   A. Probate
   B. Intestate
   C. Estate planning

5. A legal document that appoints someone to handle your financial affairs if you are incapacitated is called a
   A. Living will
   B. Durable power of attorney
   C. Revocable living trust

6. Estate planning comprises arrangements people make to manage and transfer their assets
   A. During their lifetime
   B. After their death
   C. Both A and B

Answers:
1. C: Both answers are correct. A typical will spells out who will inherit property and serve as legal guardians of minor children or dependents who can’t care for themselves.
2. B: A deceased person with a will decides who inherits his or her property. The executor manages and settles the estate according to the provisions of the will.
3. C: Both answers are correct: Once your will is executed, update the will if you remarry, move out of state, or if estate tax laws change.
4. A: The probate process is facilitated by a will that tells the court how to distribute assets.
5. B: Powers of attorney should, obviously, be given only to trusted individuals.
6. C: Estate planning can include bequests made before (e.g., lifetime gifts) or after someone’s death.
### Estate Planning Worksheet

Use the worksheet below to list the location and beneficiaries of your retirement and estate planning documents.

<table>
<thead>
<tr>
<th>Name of Document</th>
<th>Location of Document</th>
<th>Beneficiary(ies)</th>
<th>Contingent Beneficiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Will</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance policy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance policy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>401(k) or 403(b) plan</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IRA</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annuity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### What You Absolutely Need to Know About Wills and Estate Planning

- The principal goal of estate planning is to make sure that your assets are distributed the way you want with the least amount of federal and state taxes.

- As life events occur (e.g., widowhood or an interstate move), estate planning documents need to be reviewed and revised accordingly.

- If you die intestate, the state probate court will appoint an administrator to oversee and manage your estate. The administrator's duties include paying final expenses and distributing assets. The choice of administrator is guided by local courts. The court may require that an administrator be bonded to ensure that he or she properly performs the required duties. The estate must pay the bonding fee and other expenses, such as legal fees.

- Beneficiary and contingent beneficiary designations in wills, trusts, insurance policies, and retirement accounts should be reviewed periodically. Assets should be titled properly to avoid conflict between a will and joint ownership with right of survivorship arrangements.

### Action Steps

- Gather information about personal property (e.g., bank statements, investment and retirement accounts, cars, jewelry, insurance policies, etc.) and put it in one place.

- Make an appointment with an attorney to draft or revise a will, durable power of attorney, and a living will.

- Once a will is written, let your children and your executor know where it is stored (original and copies).

- Update your will and power of attorney, if and when circumstances change.
Advance Directives: Making Your Health Wishes Known When You Can’t Speak for Yourself

Many people watched a highly publicized Florida case where family members wrestled with decisions about whether or not a comatose patient would have wanted to live in a “persistent vegetative state” or have her family remove the feeding tube that kept her alive. As the U.S. population ages, battles involving feeding tubes and mental incapacity will become more commonplace.

Similar to estate planning, health-care directives involve picking the people who will carry out your wishes and spelling out those wishes. If you have a strong conviction that you don’t want your life sustained if your mental capacities are compromised, the best way to make your feelings known is an “advance health-care directive” in which you choose someone to make health-care decisions for you. Also known as a medical power of attorney, it allows you to appoint someone to make medical decisions for you if you cannot make your own decisions.

You decide what kind of care you want. A living will identifies the medical procedures you do or do not want to receive during your final illness. This is where you spell out what medical care you want and don’t want: for example, CPR (cardiopulmonary resuscitation), tube feeding, blood transfusions, and mechanical ventilation. Experts advise keeping the language flexible. You may not want to say that you NEVER want to be put on a ventilator if there’s a chance you might recover.

Most states, including New Jersey, combine a living will and medical power of attorney into one document. In one section of the document, you state your wishes about a wide range of medical decisions, including end-of-life treatment. In another section, you appoint your agent. County surrogate’s offices, attorneys, and health-care facilities generally have the required forms available.

Glossary of Estate Planning Terms

- **Beneficiary** — A person entitled to a share of a deceased person’s income or property.
- **Codicil** — A written document that changes, revokes, or adds sections of a person’s will.
- **Contingent Beneficiary** — A person who is second in line to receive a distribution.
- **Durable Power of Attorney** — A legal document that appoints someone to handle your financial affairs in the event you are incapacitated.
- **Executor** — A person named in a will to administer the estate of a person who has died.
- **Living Will** — A document that expresses a person’s wishes regarding prolonging his/her life by artificial means.

Estate Planning Resources

- **New Jersey State Judiciary** Web site, [http://www.judiciary.state.nj.us/will.htm](http://www.judiciary.state.nj.us/will.htm): Describes the will-making process. It also details what happens to an estate in the event that there is no will.

- **AARP, A Consumer’s Guide to Living Trusts and Wills**: Provides help with the process of hiring a lawyer. For a free copy, AARP members should send an e-mail to member@aarp.org.

- **AARP Legal Services Network (LSN)**: AARP members in certain communities can receive a reduction in legal fees if they use an attorney who meets AARP standards. To find an LSN attorney in your area, visit [http://www.AARP.org/families/legal_issues/](http://www.AARP.org/families/legal_issues/) and click the "Finding a Lawyer" link.

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Act Your Financial Age!

Age-Related Milestones for Financial Decisions in Later Life

Confused about the ages when certain financial actions can, or need to, be taken? If so, you are not alone. Read the list below to learn about age-related financial milestones that occur in later life. Many of these milestones provide new opportunities (e.g., the ability to save more money for retirement or to claim Social Security and Medicare benefits) and new legal requirements (e.g., the mandatory distribution required from tax-deferred retirement savings plans). Milestone events are listed chronologically by age.

<table>
<thead>
<tr>
<th>Milestone Age</th>
<th>Description of Milestone Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>50</td>
<td>◆ Eligibility for retirement savings plan catch-up contributions (up to $5,500 for tax-deferred employer plans such as 401(k)s and 403(b)s and $1,000 for IRAs in 2016) ◆ Eligibility for Social Security survivor’s retirement benefits by disabled widows and widowers ◆ Eligibility to join AARP, which provides access to product and travel discounts</td>
</tr>
<tr>
<td>55</td>
<td>◆ Eligibility for penalty-free employer retirement savings plan withdrawals if you leave a job (taxes, of course, would be owed and this provision does not apply to traditional IRAs) ◆ Eligibility for “senior discounts” from many stores, restaurants, and other businesses</td>
</tr>
<tr>
<td>55 to 60</td>
<td>◆ Eligibility to retire from many public sector pension plans with 25 to 30 years of service</td>
</tr>
<tr>
<td>59½</td>
<td>◆ Eligibility to make withdrawals from a traditional IRA and/or tax deferred employer plan without paying the 10% penalty</td>
</tr>
<tr>
<td>60</td>
<td>◆ Eligibility for Social Security survivor’s benefits by widows and widowers (unless disabled)</td>
</tr>
<tr>
<td>62</td>
<td>◆ Eligibility to claim a reduced (20% to 30%, depending on age) Social Security benefit ◆ Eligibility to apply for a reverse mortgage</td>
</tr>
<tr>
<td>67 to FRA</td>
<td>◆ Time span (depending upon year of birth) that the Social Security earnings limit applies (beneficiaries will lose $1 in benefits for every $2 over the annual threshold amount)</td>
</tr>
<tr>
<td>63½</td>
<td>◆ Age to claim COBRA benefits for 18 months prior to eligibility for Medicare (if qualified)</td>
</tr>
<tr>
<td>65</td>
<td>◆ Eligibility to claim Medicare benefits</td>
</tr>
<tr>
<td>65 to 67</td>
<td>◆ Full retirement age (depending upon year of birth) for eligibility for a full (unreduced) Social Security benefit</td>
</tr>
<tr>
<td>70</td>
<td>◆ Maximum age for eligibility to receive Social Security delayed retirement credits ((8% per year for those born in 1943 or later)</td>
</tr>
<tr>
<td>70½</td>
<td>◆ Age at which mandatory withdrawals from retirement savings accounts (except Roth IRAs) must begin</td>
</tr>
</tbody>
</table>