SESSION IV

Investing for Retirement

Mary has a lot of time
so she needs a little money
but...
If Mary had a little time
she'd need a lot of money

What will be covered in Session IV

Retirement Planning Lessons

1. Asset Allocation and Diversification
2. Building an Investment Portfolio for Retirement
3. Investment Returns
4. Taking the Guesswork out of Retirement
5. Keeping Your Financial Records in Order
6. Withdrawals—How to Make Your Money Last
7. How to Choose Financial Professionals

Terms to Learn *(bolded in the text)*

Asset allocation
Core investment
Cost basis
Defined benefit plan
Defined contribution plan
Equity investing
Return
Rules of 72 and 115

Exercises

1. Your Asset Allocation Formula
2. Your Investment Portfolio
3. Estimating Your Investment Return
4. Draw Your Retirement Dreams
5. How Much Money Will You Need for Retirement?
6. Looking Ahead to Retirement
7. Estimated Cost of Living
8. Estimating Your Retirement Income
9. Ballpark Estimate
10. How $10 a Month Will Grow
11. Purchase and Sale of Assets
12. Comparison of Financial Professionals

From the 192-page book *Money Talk: A Financial Guide for Women*, NRAES-160
Available from PALS Publishing, www.palspublishing.com/moneytalk, Ph. 607-255-7654

2007 statistics from the Women's Bureau of the Department of Labor showed that women made up 46% of the labor force. This percentage is expected to increase to 47% by the year 2015. Many women are responsible for a sizable proportion of their families' income. They are also very busy—in addition to jobs, women often have the major share of raising kids and keeping the household going. So it's no wonder that many women don't want the added responsibility of investing money. But we have to get over that. According to Marsha Bertrand in ***A Women's Guide to Savvy Investing***, "Without money in this world, you are in trouble. You have to know how to take care of what you have and make it grow."

An estimated 80–90% of women will be solely responsible for their own finances at some point in their lives. The bottom line is since most poor seniors are women who have been widowed, separated, or divorced, women of all ages need to understand investing and plan for their futures.

Many women of the baby-boom generation live independently, not by design, but because of divorce after being married for 15–30 years. Investing for their future is sometimes a new responsibility; many are without the 20 years or so of investing experience that their spouses possess.

Lots of women of retirement age find themselves suddenly single because of the death of their spouse. They must cope with trying to figure out just what investments their husbands left, where they are, and how they work. The teachable moment shouldn't have to be a life crisis to get us to learn the basics of investing.

Why are women behind in retirement planning?

1. Many women don't have as much money to work with as men do.
2. Women often have shorter work histories, e.g., men are out of the work force an average of 1.6% of potential work years, while, for women, it's 14.7%.
3. A shorter work history means lower Social Security benefits.
4. Less than half (47.2%) of working-age women participate in an employment-based retirement plan, compared to 49.4% of men, according to the Employee Benefit Research Institute.
5. Women earn only 80 cents for every dollar men make, according to the Women's Bureau of the Department of Labor, and only 6% of women working in year-round full-time jobs make over $75,000 annually, compared to about 16% of men.
6. Women often do not fare as well as men in divorce settlements.

So whether you are 22, 42, or 72, single or married, understanding how to invest your money so that you can take charge of your financial life should be a high priority.

The most important step toward guaranteeing future financial security is early planning for retirement. Although the best time to start planning is when you start working, few people are disciplined enough to do this and/or they don't understand the importance of compound interest over time. You have already taken an important first step, however, by educating yourself on how to become financially secure.

Studies show that many retirees will need to replace between 70 and 90% of their preretirement income to maintain their current standard of living, and their savings will have to keep pace with inflation. Whether you will be able to live on 70–90% of your preretirement income depends on your current and planned retirement lifestyle.

Financial planners such as Michael Stein, Certified Financial Planner (CFP®), author of ***The Prosperous Retirement,*** find that many people need 100–110% of their preretirement income in the early years of retirement, especially if they plan expensive activities, such as more travel. In midretirement, spending often declines to 70–80% but may increase again later with health and long-term care expenses.

Asset Allocation and Diversification

In Session III, various types of investments were described. This session extends what you've already learned by discussing specific investment strategies for retirement.

You can't turn on a financial talk radio show or read a personal finance magazine without coming across the word "diversification." That is Wall Street's word for not putting all your eggs in one basket. What it means is that there are three basic baskets of assets you want to own—stocks, bonds, and cash equivalents. **Asset allocation** involves the placement of a certain percentage of investment capital within different types of assets (e.g., 50% in stocks, 30% in bonds, and 20% in cash).

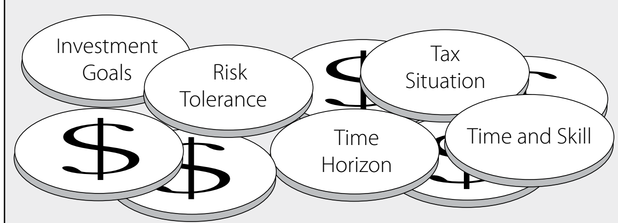
Note: Mutual funds are not a separate asset class—they are collections of stocks, bonds, cash investments, or some combination of them picked by a professional manager to match an investment objective. By buying a mutual fund, you get built-in diversification.

When your portfolio is diversified, you don't just own one stock, bond, or cash investment, but a mix of several or more of one or more asset types. Generally speaking, stocks are riskier than bonds, which are, in turn, riskier than cash.

We can expect stocks and bonds to move up and down in price each year. Prices move at different rates at different times, so spread your money around. Because nobody knows when the market will go up or down, it is important to diversify in different industries and types of investments to spread your risk.

The percentage of your money you want to allocate to each investment type depends upon how far away you are from actually needing that money. The longer your time frame, the more years you have to weather the ups and downs of the stock market and the more you can put in stocks. The other factor that weighs on how much risk to take is your tolerance for it. It's called the "sleep at night" factor.

Your ideal asset allocation will be influenced by your . . .



The younger you are, the more stocks (equities) you should own in your retirement portfolio to allow your money to grow. As your goals and age change, you may choose to put more funds into income-producing (fixed-asset) investments and less into growth. Be sure you don't have too much duplication (for instance, you probably don't need two growth and income funds).

Most people use a mathematical method to determine what portion of their portfolio should be devoted to various types of investments. The securities you select will be determined by your age, income, job security, marital status, loss aversion, general financial needs, and current economic conditions of the country. Think of your portfolio as a pie. The stocks, bonds, mutual funds, and savings you choose are the filling. Although there is no right portfolio for everyone, a general guideline is:

Stocks and/or stock mutual funds	40–90% (for growth and/or income)
Bonds	5–50% (for income)
Cash equivalents	10–25% (for liquidity)

Here's another guideline to help you with your asset allocation decision.

This concept of asset allocation is designed to help

Guideline A: For risk-takers

Subtract your age from 115 ______________

The answer is the percentage of your total investment you should put in stocks.

Subtract that number from 100 ______________

The answer is the amount you should put in a combination of bonds and cash.

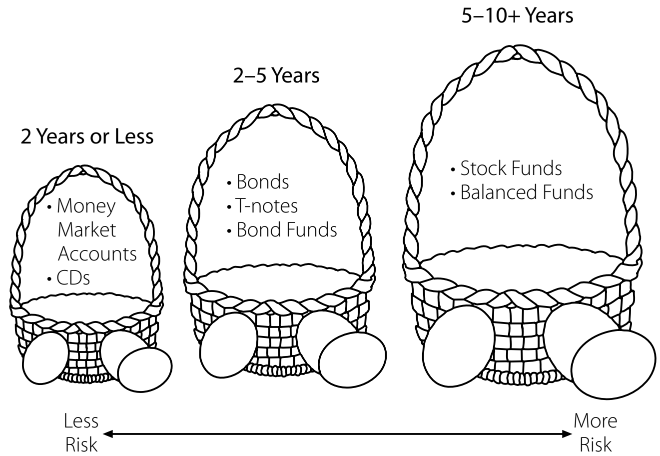
Guideline B: For the risk-averse

Subtract your age from 100 ______________

The answer is the amount you should put in stocks.

Subtract that number from 100 ______________

The answer is the amount you should put in a combination of bonds and cash.



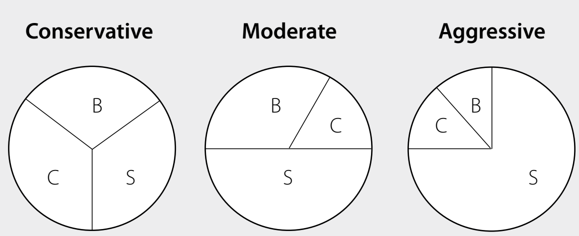
you reach your goals regardless of whether those goals are 30 years off or in the next few years. Choose a mix of investments that won't keep you awake at night or your stomach churning. Remember, patience is imperative. Successful investing is as much a factor of time as anything else. Completing Exercise IV-1, *Your Asset Allocation Formula,* will help you come up with an asset allocation formula that works for your needs.

By setting up a personal allocation of assets in your portfolio from the three baskets and letting time work its magic, you should get where you want to go.

An investment in stocks should be made with an understanding of the risks these securities entail. These include the risk that the financial condition of the issuers of the securities in the portfolio, or the condition of the stock market in general, may worsen.

No one knows what the future holds. All we have is what history shows us. The more history we can view—meaning the further back we look—the safer projections about the future can be. **But, and it is a big BUT**, past returns are no guarantee of future returns. Table III-1 on page 74 shows sample asset allocations (portfolio mixes) and the best, worst, and the average annual return and worst one-year loss from January 1926 to December 2007.

Once you have determined your asset mix, to maintain the balance in your portfolio, you'll need to periodically adjust your holdings. For example, if your stocks (or stock mutual funds) have been increasing in value faster than your bonds and T-bills, it won't be long before they represent a lot more than 50% of the value of your portfolio. At that point, you'll need to sell enough of your stocks (or add new money to bonds and T-bills) to get the percentage back to the percentage you started with. This is called **portfolio rebalancing**. You should consider rebalancing any time your investment percentages get 5–10% out of whack from their original weightings.



S = Stocks B = Bonds C = Cash management

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EXERCISE IV-1

Your Asset Allocation Formula

Following is a sample asset allocation model that is based on age and life cycle and can be used as a starting point in customizing your portfolio on the worksheet below. Total percentages should add up to 100% in each column.

Asset allocation formula				
	Age 20 single (%)	Age 40 married with children (%)	Age 60 preretiree (%)	Age 80 retired (%)
Cash (money market fund)	5	10	10	20
Certificates of deposit (CDs)/short-term bonds or funds	5	10	10	25
Intermediate bonds (laddered) or funds	0	10	20	35
Large-cap domestic stocks	45	35	40	20
Small-cap domestic stocks	30	20	10	0
International stocks	15	15	10	0
Total	100	100	100	100

Your desired asset allocation	
	Your age __________
Cash (money market fund)	%
CDs/short-term bonds or funds	%
Intermediate bonds (laddered) or funds	%
Large-cap domestic stocks	%
Small-cap domestic stocks	%
International stocks	%
Total	100

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Building an Investment Portfolio for Retirement

Before you can decide on specific investments to fund your retirement goals, you need to have a blueprint—a plan for dividing your retirement savings among the three categories of investments, stocks, bonds, and cash equivalents—that will get you there. Selecting investments does not have to be a complicated process. You just have to take one step at a time and focus on your goal. It may not be practical or financially feasible to implement your plan all at once, but you will have the master plan.

The investment portfolio example on page 107 will illustrate how to construct a portfolio and help you visualize your asset allocation strategy to meet your predetermined retirement savings goal.

Working your way down, the top slot of the pyramid holds your financial goal, e.g., "accumulate $500,000 in 25 years." The section below contains your monthly investment ($492/month) in a tax-deferred (if possible) account at a particular interest rate (e.g., a rate of 9%). Next, we do the broad asset class division—how much in equity and how much in fixed income (e.g., 60% equity (stocks), 40% fixed income).

Equity investing. Becoming an owner or partial owner of a company or a piece of property through the purchase of investments such as individual stocks, stock mutual funds, and real estate.

We next break down the equity and fixed income blocks further. In equities, we choose 50% stocks and 10% real estate. On the fixed income side, we choose 30% bonds and 10% money market. Moving down another block, we get more specific. On the equity side, we select 30% in a large company stock fund, 10% in a small company stock fund, 10% in an international stock fund, and 10% in a real estate fund. On the fixed income side, we select 10% short-term bonds or bond funds, 10% intermediate-term bonds or bond funds, 10% GNMA funds, and 10% in money market funds. The final step of the process is to actually identify the specific mutual funds (or individual securities) for each asset class. Notice that various investment strategies form the base of the pyramid—all of which were discussed earlier. Exercise IV-2 (page 108) will allow you to draw out your own investment portfolio.

Table IV-1 gives you some other estimates of what you would need, depending on your age, to set aside to reach a goal of $500,000 by age 65, assuming a 9% average annual rate of return. For example, at age 40, you would have to deposit a lump sum of $57,984 or make monthly investments of $492 to accumulate this nest egg. For simplicity, taxes are excluded from this illustration.

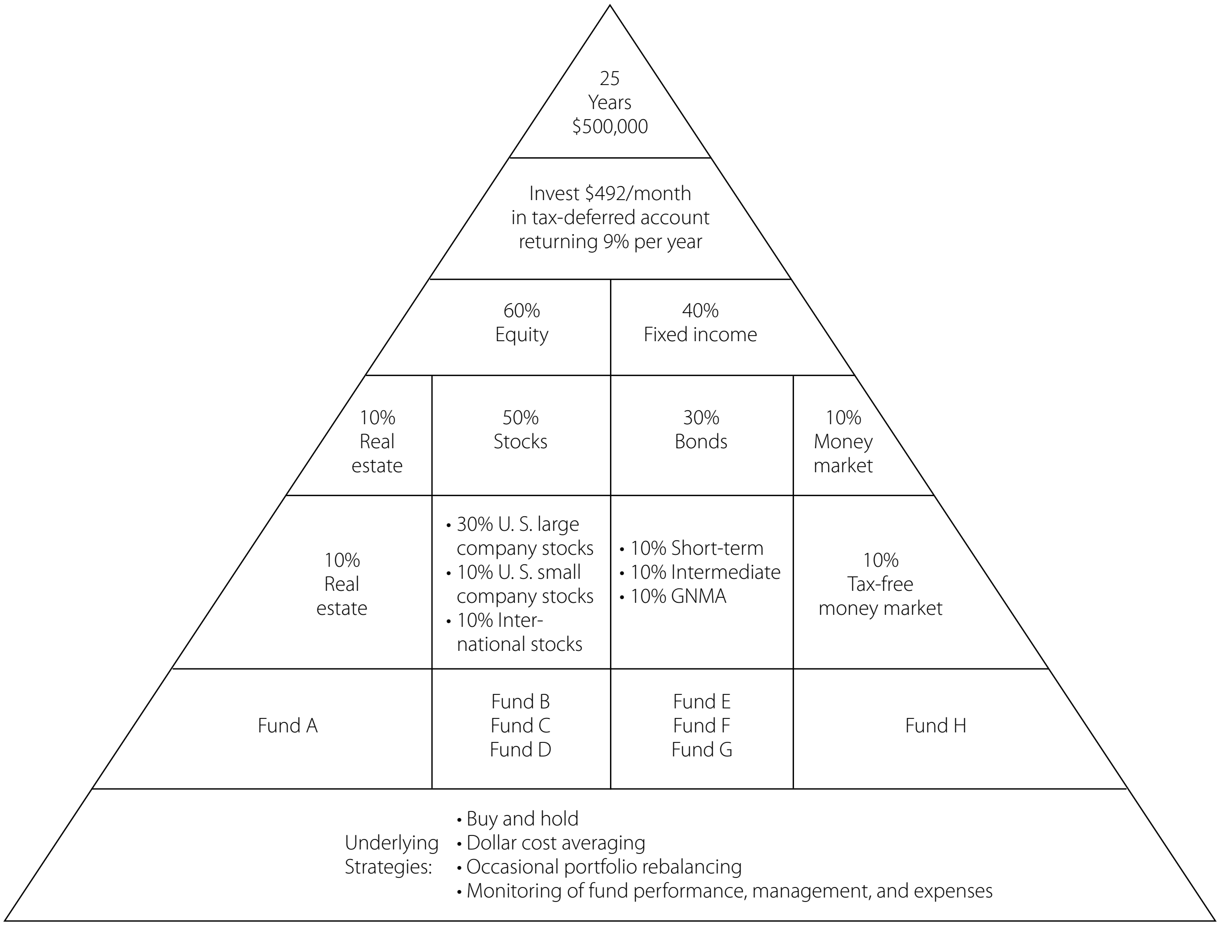
TABLE IV-1

Amount Required to Have a $500,000 Retirement Fund @ 9%

Years to age 65	Your age	Lump-sum amount ($)	Monthly investment amount ($/mo.)
40	25	15,918	123
35	30	24,493	193
30	35	37,685	306
25	40	57,984	492
20	45	89,215	814
15	50	137,269	1,419
10	55	211,205	2,743

Index funds could be used as a core of your investment portfolio in each category because of their low expenses. You could then add additional actively managed funds to complement them.

Investment Portfolio Example



Adapted from: Taylor, J. (1993). *Building Wealth with Mutual Funds.*

> ***Core investment.*** The foundation of a portfolio (e.g., a stock index fund) to which an investor might add additional securities.

Index funds track a specific market index such as the Standard & Poor's 500. Actively managed funds provide the opportunity to outperform the market and to, therefore, potentially raise your investment returns. You can make investing very simple and just choose index funds in each category and at least be assured of market-matching returns (minus expenses). This is a more conservative approach than choosing actively managed funds.

If you choose to combine index funds and actively managed funds, here's one way you could build a portfolio. The percentages in Table IV-2 are merely guidelines.

TABLE IV-2

Portfolio Illustration

Component	Large-cap stock funds	Small-cap stock funds	International stock funds	Real estate
Core	70% index funds	50% index	40% index	50% index
Beyond	30% actively managed	50% active	60% active	50% active

Table IV-3 shows what the above proportions would look like in dollars. Suppose you had $10,000 to invest. Let's say you want 60% of your money in stock mutual funds, 30% in bond mutual funds, and 10% in

TABLE IV-3

Stock Portion of Portfolio

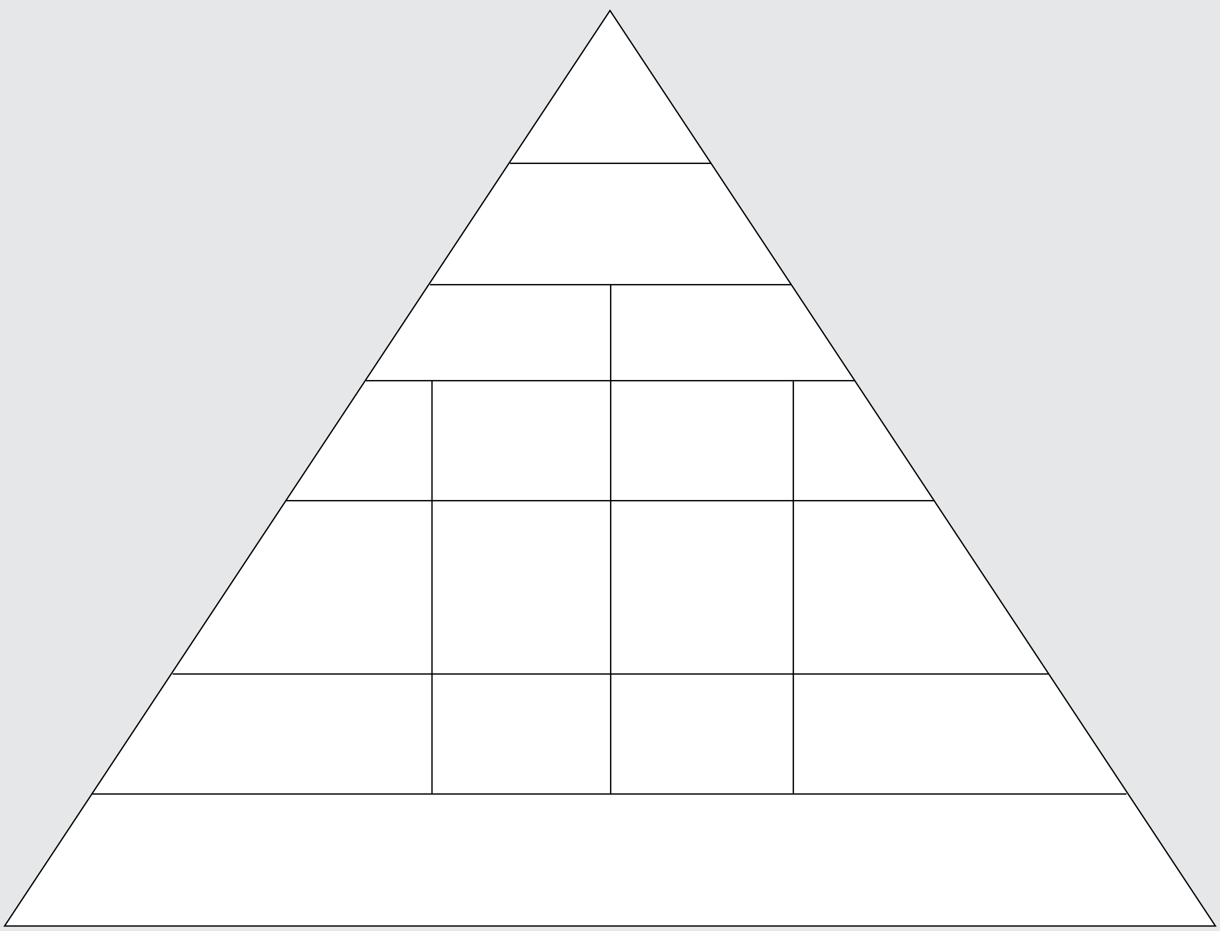
Type of fund	Total for this class of fund (%)	Equivalent amount ($)	Index/ nonindex (%/%)	Equivalent amount ($/$)
Large-cap	30	3,000	70/30	2,100/900
Small-cap	10	1,000	50/50	500/500
International	15	1,500	40/60	600/900
Real estate	5	500	50/50	250/250

money market (cash) funds. The cash portion would be $1,000, and the bond portion would be $3,000. The remaining $6,000 would be divided between index and actively managed funds according to the guidelines in the previous table.

To summarize, build a core with one broad-based index fund each in the large-cap, small-cap, international, and real estate (optional) categories. Add to these no more than two actively managed funds in each stock asset class. In the fixed-income area, choose short- and intermediate-term index funds, plus an actively managed low expense fund (e.g., GNMA fund). Throw in a money market fund, and your portfolio is complete.

EXERCISE IV-2

Your Investment Portfolio



Investment Returns

An investment gain or loss is referred to as the **return**. This may include the receipt of income (interest, dividends, or rent) or capital gains. The combination of income and capital gains or losses is the **total return** from an investment.

Obviously, if the value of an investment has fallen, a negative rate of return may result (depending upon whether income received from the investment exceeds the loss in value). However, if an investor doesn't actually sell or liquidate the investment (rather, she holds on to it) and the value of the investment goes down, the loss may only be a "paper" one because the value may rise again before she sells it.

Most investors measure return on a "yield" or "rate of return" basis—that is, as a percentage of the amount invested on an annualized basis—rather than in dollars. That way, you can compare the yields on different investments and find out how much you earned per dollar invested. Remember that the rate of inflation and your tax bracket reduce the rate of return on any investment.

Minimum Rate of Return (RR)

You can estimate the minimum rate of return (RR) you need to break even with inflation and federal taxes.

Divide the inflation rate by 1 minus your marginal tax bracket (the tax rate you would pay on the last dollar of income earned) expressed as a decimal. For example, imagine that the inflation rate is 4% and you are in the 25% marginal tax bracket.

$$RR = \frac{.04}{1 - .25} = 0.053 \text{ or } 5.3\%$$

The minimum rate of return needed to break even is 5.3%. In the 15% bracket, the rate needed with a 4% rate is 4.7% (.04 ÷ (1 – .15)).

Table IV-4 lists the marginal tax rates for 2015. Table IV-5 will give you an idea of what type of return you will need to achieve to at least keep up with inflation and taxes depending on your own marginal tax rate at various inflation rates. For annual marginal tax bracket updates, see http://njaes.rutgers.edu/money/taxinfo/.

TABLE IV-4

Individual Tax Rate Schedules for 2015

	Taxable income ($)	Marginal tax bracket rate (%)
Married filing jointly	0–18,450	10
	18,451–74,900	15
	74,901–151,2000	25
	151,201–230,450	28
	230,451–411,500	33
	411,501–464,850	35
	over $464,850	39.6
Head of household	0–13,150	10
	13,151–50,200	15
	50,201–129,600	25
	129,601–209,850	28
	209,851–411,500	33
	411,501–439,000	35
	over $439,000	39.6
Single	0–9,225	10
	9,226–37,450	15
	37,451–90,750	25
	90,751–189,300	28
	189,301–411,500	33
	411,501–413,200	35
	over $413,200	39.6
Married filing separately	0–9,225	10
	9,226–37,450	15
	37,451–75,600	25
	75,601–115,225	28
	115,226–205,750	33
	205,751–232,425	35
	over $232,425	39.6

TABLE IV-5

The Challenge of Earning a Break-Even Rate of Return

If inflation is this much (%)	You must earn this much (%) to break even after inflation & federal taxes		
	Marginal income tax rate		
	15%	25%	28%
0	0.0	0.0	0.0
3	3.5	4.0	4.2
4	4.7	5.3	5.6
5	5.9	6.6	6.9
6	7.1	8.0	8.3
7	8.2	9.3	9.7
8	9.4	10.7	11.1
9	10.6	12.0	12.5
10	11.8	13.3	13.9

Rules of 72 and 115

Want to double your money? Triple your money? Of course you do. Can anyone show you how to do it? Of course they can't. However, with the Rule of 72, you can calculate how long it will take for your investments to double. The Rule of 72 assumes that your investments are tax-deferred and earning compound interest.

$$72 \div \text{Rate of return you receive per year} = \text{Number of years for your money to double}$$

Let's put this formula to work. If you have a 9% investment return, your money will double in 8 years—72 divided by 9.

$$\text{Rate of return } 9\% \overline{\big)\ 72\ }\quad \textbf{8 years to double}$$

Maybe you would rather do more than double your money. You'd prefer to triple it. Let's move on to the Rule of 115. Instead of using the number 72, use the number 115. Now the money you have invested at 9% will triple in 12.8 years (115 ÷ 9 = 12.8 years).

$$\text{Rate of return } 9\% \overline{\big)\ 115\ }\quad \textbf{12.8 years to triple}$$

Rates of return on both are examples only and are not meant to represent any specific investments.

These formulas can't guide you to investments that pay you the rate of interest you need, but they can at least tell you at what rate you need to invest your money to double or triple it within a certain time frame. However, whether an investment can double or triple your money is of less importance than the safety and the appropriateness of the investment.

Determining Your "Real" Return

When a mutual fund touts its performance from last year, it is saying how the fund did, not how you did in the fund. There's a difference. Calculating your precise personal rate of return is difficult, but not impossible. It's the kind of data a financial advisor should provide (although not all do). In any case, you can also estimate your personal return using a reasonably simple formula. An example is given below, followed by a worksheet (Exercise IV-3) to help you determine your own real return.

Here's what you will need:

- the balance in your account (or portfolio) at the start of the year.
- the value of that account, including any dividends, capital gains, or interest that you took in cash, at year's end.
- the total value of additional investments made during the year (e.g., biweekly 401(k) plan contributions).
- a calculator.

Now, put that calculator through the following paces.

Step 1) Write down the beginning balance of your portfolio at the start of the year and your ending balance at year's end.

Step 2) Add to your beginning balance one-half of your total additional investments.

Step 3) Subtract from your ending balance one-half of your total additions over the year.

Step 4) Divide the result in Step 3 by the result in Step 2.

Step 5) To turn the number into a percentage, subtract 1 and multiply by 100.

Estimating Your Return Using Simple Arithmetic

Invest $200 per month or $2,400 over the year.

Step 1

January 1—Account balance	$15,368
December 31—Account balance	$19,627

Step 2

	$15,368	Beginning balance
Add	$ 1,200	½ of $2,400 added
	$16,568	

Step 3

	$19,627	Ending balance
Subtract	$ 1,200	½ of $2,400 added
	$18,427	

Step 4

$$\frac{\$18{,}427}{\$16{,}568} = 1.11$$

Step 5

To turn the number into a percentage, subtract 1 and multiply by 100. The return in this example is 11.1%.

EXERCISE IV-3

Estimating Your Investment Return

Step 1

Write down the beginning balance of your portfolio at the start of the year and your ending balance at year's end.

$________ Beginning account balance

$________ Ending account balance

Step 2

Add to your beginning balance one-half of your total additional investments during the year.

$________ Beginning balance

+ $________ Add ½ of additions made to the account over the year

= $________

Step 3

Subtract from your ending balance one-half of your total additions over the year.

$________ Ending balance

− $________ Subtract ½ of additions made to the account over the year

= $________

Step 4

Divide the result in Step 3 by the result in Step 2.

$________ Result of Step 3

÷ $________ Result of Step 2

= $________

Step 5

To turn the number into a percentage, subtract 1 and multiply by 100.

________ %

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Your Minimum "Need to Knows" about
Asset Allocation, Diversification, and Investment Returns

- Asset allocation is the biggest factor in determining your overall return. Choose your asset allocation carefully.
- Select investments based on your age, income, job security, marital status, tolerance for risk, and the general economic conditions of the country.
- Consider investing primarily for growth if you are in your prime earning years.
- Have a healthy sense of caution when investing, but don't be paralyzed by fear. Time and experience will help.
- Evaluate your investment returns annually.
- Reevaluate your investment strategies periodically to see if they're keeping you on the path to your goals.

LESSON 4

Taking the Guesswork out of Retirement

We all have a certain number of days until retirement. That number will be different for each person.

If you are like many people, retirement is always something you put off thinking about until tomorrow. But sooner than you think, tomorrow will be today. You could be in for a rude awakening if you wait until the last few years of work to plan for retirement.

These are some of the harsh realities:

- Americans aren't saving enough. Our personal savings rate in the United States today is less than 1–2% of our income.
- Baby Boomers, the largest population group in U.S. history, are starting to retire, further straining the Social Security system.
- Most experts agree you'll need between 70 and 100% of your preretirement income to retire comfortably.
- Social Security currently pays average 65-year-olds 25–40% of what they will actually need to maintain their preretirement lifestyle.
- People are living longer. Although you'll likely have more years of retirement to enjoy, you'll also have to pay for those extra years.

Only 22,283 days until retirement.

You can't control the passing of time, but you can take action when it comes to planning for your financial future. To help you get started, complete Exercises IV-4 and IV-5.

EXERCISE IV-4

Draw Your Retirement Dreams

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EXERCISE IV-5

How Much Money Will You Need for Retirement?

The preretirement planning decisions you make or don't make now will determine your ability to realize your retirement goals. Because you will probably live longer than you expect, proper financial planning now will determine the standard of living you will enjoy throughout your retired life.

How much money will you need for retirement?

This is a difficult but crucial question to ask. Because many factors must be considered, the answer is, "It depends." Answer the following questions to begin to formulate a retirement plan:

- What is your current age? ____________
- At what age do you intend to retire? ____________
- Do you plan to work during retirement? ____________
- How many years might you live in retirement? (How long might you live?) ____________
- How much are you currently earning? ____________
- What will be your main source of income during retirement? ____________
- How much money do you need (or want) to spend each month in retirement to achieve your goals and maintain your lifestyle? ____________
- How much have you already accumulated in employer benefits? ____________
- How much have you already saved or invested for retirement? ____________
- How comfortable are you taking risks with your investment dollars? ____________
- How many people must you support (financially) now and in the future? ____________

Adapted with permission from: Dahl, B. (1996). *A Working Woman's Guide to Financial Security*. Urbana, Ill.: University of Illinois Cooperative Extension.

Steps to Successful Retirement Planning

You will feel a sense of control over the retirement process if you follow these financial planning steps:

- identify and set preretirement and postretirement goals.
- estimate the length of your retirement.
- determine your net worth.
- estimate your retirement expenses.
- estimate your retirement income.
- balance expenses and income.
- plan for the effects of inflation.
- evaluate and revise your plan.

Identify and Set Goals

Putting realistic, attainable goals in writing will help crystallize your thoughts about what you want your money to do for you in retirement. The more specific you can make your goals, the more likely you are to be committed to them. Your goals may change, and that's OK.

Take a few minutes now to think ahead, prioritize your goals, and complete Exercise IV-6. You may wish

EXERCISE IV-6

Looking Ahead to Retirement

(Consider your answers from the previous exercise.)

	Example	Your situation
Your age today	42	
Age you plan to retire	62	
Number of years until retirement	20	
Where do you plan to live?	Madison, same home.	
Will you work part-time?	Yes	
What hobbies/activities will you do in your free time?	Volunteer at library, church choir,	
Will you be caring for any family members?	Don't know.	
Goals to accomplish before retiring	Pay off mortgage. Buy a new car. Have $100,000 in savings/investments. Finish B.A. degree.	
Goals to accomplish after retiring	Trip for two to Ireland. Minor kitchen remodeling. Start part-time business.	

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to review your goals each year when you complete your annual review.

How Long Will You Live?

There was a time when you weren't expected to live much past your 65th birthday. Now studies show that by 2015, 5% of the population will live to 100+ years. Therefore, to be safe, most women should plan for a retirement period of 30–40 years (age 95).

If you retire at age 65, will you be able to maintain your current standard of living for another 30 years based on what you plan to receive in employee retirement and Social Security benefits and what you have already saved?

Determine Your Net Worth

This was done as part of Session I and should be updated and evaluated each year.

How Will Your Spending Plan Change in Retirement?

Some expenses in retirement *may be lower* than in preretirement:

- Housing costs could decrease as home equity loans and mortgages are paid off.
- Work-related expenses such as lunches away from home, union or professional dues, transportation, and wardrobe maintenance are reduced.
- Educational expenses for children are paid.
- Most large household improvements and home furnishings expenses are decreased.
- Deductions for Social Security and contributions to a pension plan cease.
- Savings and investments usually decrease but hopefully do not stop.
- Disability insurance will no longer be needed, and you may choose to stop life insurance payments.
- Discounts are available for a lot of goods and services after age 55, 60, 62, or 65.
- Federal and state income taxes are lower if you are living on less.

Some expenses *may remain the same* or perhaps decrease in retirement:

- Food prepared at home
- Personal care
- Automobile expenses, including insurance
- Utilities
- Homeowner's/renter's insurance (if you move)
- Taxes (Some states don't tax pension benefits.)

Other expenses *may increase* when you retire:

- Medical and dental expenses and health insurance premiums
- Long-term care expenses
- If you're taking early retirement (before age 65), you will need to purchase medical and dental insurance. The cost for this period, until age 65, when Medicare begins, may well be $6,000 to $10,000 or more per year.
- Expenditures for leisure, travel, and entertainment may increase, especially in early retirement years.

Anticipating Your Costs of Retirement Living

To know how much money you will need during retirement, estimate your anticipated expenses. Base this estimate on your current living expenses. Most people want a standard of living in retirement similar to their preretirement level. A written spending plan and record of household expenses gives important information for projecting retirement living costs. Use Exercise IV-7, *Estimated Cost of Living,* on pages 118–119 to indicate your costs now and after retirement.

- Enter your current expenses for each category in the "Now" column. Annual, semiannual, and quarterly expenses should be broken down into monthly amounts.
- Decide if you will spend less, the same, or more in each category after retirement. This will be simple to do if you decide to remain in the same home you lived in before retirement since many of your expenses will remain the same.
- If you think the expense will increase or decrease, put the new amount in the "After Retirement" column based on the approximate dollar amount in today's dollars.

Where Will You Get Your Retirement Income?

Traditionally, retirement funds came from what is called the three-legged stool: *Social Security, employer-sponsored plans,* and *personal savings and investments*. Unfortunately, many women's "stools" aren't supported by three strong legs or, in some cases, even by two.

LEG 1—Social Security

Social Security is the foundation of most women's retirement income. This leg is paid for in equal amounts by both you and your employer if you are an employee and totally by you if you are self-employed.

Your eligibility for Social Security benefits is generally based on your lifetime earnings record (or your spouse's earnings record) and your age. Eligibility for Social Security benefits requires meeting the work requirement yourself or being married for at least 10 years to someone

Retirement Income Sources

- The government: Social Security, federal and state pensions, veteran's benefits.
- Your employer: pension, profit-sharing, and tax-deferred savings plans.
- Your savings and investments: individual retirement accounts (IRAs), Keoghs, SEPs (retirement plans for self-employed workers), insurance, stocks, bonds, mutual funds, money market accounts or funds, rental real estate, savings accounts, commissions, fees, or business income.
- Your assets: your home, vehicles, collections (coins, art, and antiques) when sold, anticipated gifts and/or inheritances.
- Additional earnings: full- or part-time employment after you and/or your spouse retire.

who does. If you are older than 25, have paid into Social Security, and are not currently receiving benefits, you will annually receive a Social Security benefit estimate about 2–3 months prior to your birth date. Reviewing this statement every year helps ensure its accuracy.

Currently, the average retiree receives under $14,000 per year and relies on Social Security for more than 40% of his or her income.

The approximately top third of retirees and retired couples, those with $32,000 or more in annual income, depend far less on Social Security—it is about a quarter of their income.

Some points to consider:

- Employed women who are married, widowed, or divorced after at least 10 years of marriage are said to be "dually entitled" and are eligible to collect Social Security benefits on the higher of their own work record or their husband's. Many receive higher benefits based on their husband's (rather than their own) records. Just under half of dually entitled women draw benefits based on their own work record.
- Earned income in retirement may reduce your Social Security benefits.

Age	Annual limit*	Reduction
< full retirement age	$14,160	$1 for every $2 earned
> full retirement age	none	none

* 2009 limit. The Social Security earnings limit is adjusted annually for inflation. Consult www.ssa.gov for current information.

A special earnings limit calculation is done for the year in which a person reaches full retirement age. Benefits are permanently reduced when received between age 62 and full retirement age.

- Social Security retirement rules have changed for people born after 1937. Full retirement age increases in 2-month increments until it reaches 67 for people born in 1960 and later, as Table IV-6 shows.

TABLE IV-6

Full Retirement Age Depends on Year of Birth

Year of birth	Full retirement age
1937 or earlier	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943–1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

Adapted from: *Social Security Retirement Benefits* (2003). Social Security Administration, Publication No. 05-10035.

EXERCISE IV-7

Estimated Cost of Living

	Now per month	Expected change in retirement (+ or –)	After retirement per month
Housing			
Electricity, heat (gas or oil)	______	______	______
Floor covering, window treatments	______	______	______
Furniture, appliances	______	______	______
House cleaning, repair, yard care	______	______	______
Internet service provider	______	______	______
Phone, cellular phone	______	______	______
Property taxes	______	______	______
Rent or mortgage payments	______	______	______
Water, sewer, garbage, recycling	______	______	______
Insurance			
Automobile	______	______	______
Disability	______	______	______
Flood	______	______	______
Health	______	______	______
Homeowner's or renter's	______	______	______
Life	______	______	______
Long-term care	______	______	______
Umbrella liability	______	______	______
Transportation			
Bus/taxi/train/tolls/parking	______	______	______
Gasoline	______	______	______
License and vehicle registration	______	______	______
Maintenance and repairs	______	______	______
Monthly car payment(s)	______	______	______
Clothing			
Clothing for entire household	______	______	______
Laundry/dry cleaning	______	______	______

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	Now per month	Expected change in retirement (+ or –)	After retirement per month
Food			
At home (groceries)	______	______	______
Away from home	______	______	______
Entertainment			
Cable TV, computer	______	______	______
Memberships/dues	______	______	______
Music, movies	______	______	______
Sports	______	______	______
Vacations, trips	______	______	______
Donations			
Charitable/political	______	______	______
Gifts	______	______	______
Religious	______	______	______
Savings, investments			
Banks, credit unions, money market funds	______	______	______
Employer retirement plans:			
Profit sharing, 401(k)s, 403(b)s	______	______	______
Investments (taxable)	______	______	______
Retirement: IRA, Keogh, SEP	______	______	______
Health care			
Deductibles/copayments	______	______	______
Eye glasses, hearing aids	______	______	______
Medications	______	______	______
Physicians, dentists	______	______	______
Taxes			
Federal income tax	______	______	______
Social Security (FICA)	______	______	______
State income tax	______	______	______
Other	______	______	______
	______	______	______
Total expenses	$______	$______	$______

LEG 2—Pensions

Pension plans are usually either a **defined benefit plan** that guarantees a specified monthly amount that often is not adjusted for inflation, **OR**, a **defined contribution plan** that grows tax-deferred but does not guarantee a specific retirement benefit. The latter type of plan is typically paid to the employee in a lump sum upon retirement.

Some points to consider:

- The pension leg of the stool is missing for many women. You are more likely to have a defined benefit employer-provided pension if you work for a local, state, or federal government, a large company, or one that is unionized.
- The trend today is toward defined contribution plans that specify the amount of money employees can contribute annually to an employee retirement account. These plans are not insured, but they are portable, that is, the money in the plan may be taken out when you leave a job. To avoid taxes, however, the money must be transferred to another employer's plan or to a rollover IRA.
- Your rights to benefits from an employer-sponsored retirement plan are defined by the vesting schedule.

Vesting. Refers to the date when you are entitled to the money that your employer has contributed to your retirement account.

Major Types of Defined Contribution Plans

- *401(k) plans* (offered through corporations), *403(b) plans* (offered through nonprofit organizations), and *Section 457 plans* (offered through state and local governments)—allow an employee to make tax-deferred contributions by reducing his or her salary by up to $16,500 ($22,000 if age 50 and over) in 2009.
- *Profit-sharing plans*—contributions depend on the company's profits, so employer contributions can vary from year to year.
- *Money purchase pension plans*—require an employer to contribute a certain amount yearly for each employee, generally a percentage of earnings.
- *Stock bonus plans*—require an employer to buy stock in the company on behalf of the employee. It is usually held in trust until retirement when the employee can receive the shares or sell them at their fair market value.

If your pension rights are not vested, you will get back only your own contributions plus the earnings on them. If you are fully vested because you have worked at least the required number of years for your employer, you probably will be eligible for full benefits. Be sure to check your employer's vesting schedule.

LEG 3—Savings and Investments

Even if you receive benefits from Social Security and an employer-sponsored retirement plan, your stool will have only two legs and you will probably not have enough income to live comfortably at your preretirement level. Your personal retirement savings program should be the strongest leg on your stool because it supports the other two. Besides employer plans, you may also have private savings sources such as IRAs, Keoghs, SEPs, and annuities. These are the types of plans that YOU originate and control. You may also have other investments in taxable accounts.

Few people find it easy to save for retirement. Many people have trouble putting away money that they won't use for 20 years or more. Many women find it difficult to save because current needs consume most or all of their income and unexpected emergencies frequently occur. Every dollar set aside today can more than double, or even quadruple, if it can grow tax-deferred or is invested wisely.

Use Exercise IV-8, *Estimating Your Retirement Income*, to review all the sources of money to determine what your potential retirement income will be.

EXERCISE IV-8

Estimating Your Retirement Income

		Monthly income ($)	Annual income ($)
Government benefits	Federal, state, and/or municipal government pension	____________	____________
	Social Security	____________	____________
	Social Security on your spouse's or former spouse's earnings or widow's benefit	____________	____________
	Veteran's benefits	____________	____________
Employer benefits	401(k), 403(b), or Section 457 plans	____________	____________
	Company pension plan(s)	____________	____________
	Profit sharing	____________	____________
	Stock purchase/ownership plan	____________	____________
Individual savings and investment income	Annuities (income)	____________	____________
	Bonds (dividends)	____________	____________
	Certificates of deposit (interest)	____________	____________
	IRA	____________	____________
	Money markets (interest)	____________	____________
	Mutual funds (dividends, capital gains)	____________	____________
	Pension/annuity from former spouse	____________	____________
	Savings accounts (interest)	____________	____________
	Stocks (dividends)	____________	____________
	Treasury securities	____________	____________
Your earnings	Commissions, royalties, consultant fees	____________	____________
	Salary, wages, tips	____________	____________
Other	______________________________	____________	____________
	______________________________	____________	____________
	Total estimated income	____________	____________

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Make Sure You'll Reach Your Goal

To determine whether or not you are on track to reach your retirement plan goals, you need to find out if you have a "retirement income gap"—the difference between how much you estimate you need in retirement and how much you'll actually have, based on current savings, pension, and Social Security resources. The last thing you want to discover after you retire is that you don't have enough money. Too many people learn too late that the only available solution is to keep working. Contact your human resources/benefits office at work to get a pension estimate and the local Social Security office for the ***Request for Earnings and Benefits Estimate Statement***. (Note: This form is also sent automatically prior to your birthday each year until you're 65.)

Use this information to complete the ***Ballpark Estimate*** worksheet (Exercise IV-9). This form is also available on the American Savings Education Council's Web site at www.asec.org and can be completed online.

This exercise simplifies issues that seem complicated, such as the future value of current savings, and can be completed with a calculator in a matter of minutes. ***The Ballpark Estimate*** assumes that you'll realize a constant real (after inflation) return of 3%.

Jonathan Pond, financial planner and author, has counseled "conservatively speaking, your retirement savings should be equal to between 20 and 25 times your [individual or combined (if married)] pretax income (your shortfall after Social Security and pension) in your first year of retirement."

David Bach, in ***Smart Women Finish Rich***, argues that if the experts say that everyone (but they really mean men) should be putting away 10% of their pretax income for retirement, that's not necessarily good enough for women. After all, women live longer than men, and as a result, need to put more away for retirement. If women's retirements tend to last 20% longer than mens', then women's nest eggs need to be 20% larger. In other words, as a woman, you should be saving 12% of your annual gross income.

Further analysis to determine how much you need to save for retirement can be done either by using computer software from sources such as T. Rowe Price, Fidelity, and Vanguard or by consulting a financial professional.

Balance Your Expenses and Your Income

Now that you know what your anticipated income and your retirement expenses might be, you may have discovered there is more anticipated expense than income. Don't give up. You have several alternatives to help close the gap.

Save more money. Surveys show that most American workers know their retirement savings and investments will not be enough to provide a comfortable retirement. Use Exercise IV-10 on page 126 to see how an extra $10 a month will grow. If you can save more, multiply the result by $10 units.

Increase your income. By working overtime or taking a part-time job in addition to your full-time job, you can add to your savings program. You might wish to work part-time after retirement.

Boost your retirement contributions. Completely fund your IRA each year and contribute as much as possible to tax-deferred programs such as 401(k)s, 403(b)s, Keoghs, or SEPs. Automatic deductions from your paycheck make it easier to save. Try to max out your contributions limitation, e.g., $16,500 in 2009, to a 401(k), or at least up to your employer's match. If you are already doing that, then kick your contribution up 1% more, especially after receiving a raise.

One percent of a $35,000 salary, for example, is $350. According to the investing tool the ***401(k) Booster Calculator,*** produced by Advantage Publications, for a 40-year-old with 25 years to go to retirement, this would mean $39,474 of additional savings at age 65, assuming an 8% average return and 4% average annual pay increases.

Put off retirement. By delaying retirement, you will build additional Social Security, pension, and retirement plan benefits. You will also reduce the number of years you will have to provide for. For example, by working an extra 3 years and factoring in compound interest on your assets that are not being withdrawn,

EXERCISE IV-9

Ballpark E$timate®

Planning for retirement is not a one-size-fits-all exercise. The purpose of *Ballpark* is simply to give you a basic idea of the savings you'll need when you retire. So let's play ball!

If you are married, you and your spouse should each fill out your own *Ballpark Estimate®* worksheet, taking your marital status into account when entering your Social Security benefit in number 2 below.

1. How much annual income will you want in retirement? (Figure at least 70% of your current annual gross income just to maintain your current standard of living; however, you may want to enter a larger number. See the tips to help you select a goal at www.choosetosave.org.) $______________

2. Subtract the income you expect to receive annually from:

- Social Security—If you make less than $25,000, enter $8,000; between $25,000 and $40,000, enter $12,000; over $40,000, enter $14,500. (For married couples—the lower-earning spouse should enter either their own benefit based on their income or 50% of the higher-earning spouse's benefit, whichever is higher.)

  For a more personalized estimate, enter the appropriate benefit figure from your Social Security statement from the Social Security Administration (1-800-772-1213, www.ssa.gov). *Ballpark* assumes you will begin receiving Social Security benefits at age 65, however, the age for full benefits is rising to 67. Your Social Security statement will provide a personalized benefit estimate based on your actual earning history. – $______________

- Traditional employer pension—a plan that pays a set dollar amount for life, where the dollar amount depends on salary and years of service (in today's dollars) .– $______________
- Part-time income – $______________
- Other (reverse annuity mortgage payments, earnings on assets, etc.) – $______________

This is how much you need to make up for each retirement year: = $______________

Now you want a ballpark estimate of how much money you'll need in the bank the day you retire. So the accountants went to work and devised this simple formula. For the record, they figure you'll realize a constant real rate of return of 3% after inflation, you'll live to age 87, and you'll begin to receive income from Social Security at age 65. If you anticipate living longer than age 87 or earning less than 3% real rate of return on your savings, you'll want to consider using a higher percentage of your current annual gross income as a goal on line 1.

3. To determine the amount you'll need to save, multiply the amount you need to make up by the factor below. $______________

Age you expect to retire	Choose your factor based on life expectancy (at age 65):					
	Male, 50th percentile (age 82)	Femaile, 50th percentile (age 86)	Male, 75th percentile (age 89)	Female, 75th percentile (age 92)	Male, 90th percentile (age 94)	Female, 90th percentile (age 97)
55	18.79	20.53	21.71	22.79	23.46	24.40
60	16.31	18.32	19.68	20.93	21.71	22.27
65	13.45	15.77	17.35	18.79	19.68	20.93
70	10.15	12.83	14.65	16.31	17.35	18.79

EXERCISE IV-9

Ballpark E$timate®

(continued)

4. If you expect to retire before age 65, multiply your Social Security benefit from line 2 by the factor below. + $___________

Age you expect to retire:		Your factor is:	
	55		8.8
	60		4.7

5. Multiply your savings to date by the factor below (include money accumulated in a 401(k), IRA, or similar retirement plan). – $___________

If you want to retire in		Your factor is:	
	10 years		1.3
	15 years		1.6
	20 years		1.8
	25 years		2.1
	30 years		2.4
	35 years		2.8
	40 years		3.3

Total additional savings needed at retirement: = $___________

Don't panic. Those same accountants devised another formula to show you how much to save each year in order to reach your goal amount. They factor in compounding. That's where your money not only makes interest, your interest starts making interest as well, creating a snowball effect.

6. To determine the ANNUAL amount you'll need to save, multiply the TOTAL amount by the factor below. = $___________

If you want to retire in		Your factor is:	
	10 years		.085
	15 years		.052
	20 years		.036
	25 years		.027
	30 years		.020
	35 years		.016
	40 years		.013

See? It's not impossible or even particularly painful. It just takes planning. And the sooner you start, the better off you'll be.

The *Ballpark Estimate®* is designed to provide a rough estimate of what you will need to save annually to fund a comfortable retirement. It provides an approximation of projected Social Security benefits and utilizes only one of many possible rates of return on your savings. *Ballpark* reflects today's dollars and does not account for inflation; therefore, you should recalculate your savings needs on a regular basis and as your salary and circumstances change. You don't want to stop with the *Ballpark Estimate®*; it is only a first step in the retirement planning process. You will need to do further analysis, either yourself using a more detailed worksheet or computer software, or with the assistance of a financial professional.

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From the 192-page book *Money Talk: A Financial Guide for Women*, NRAES-160
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your nest egg might be able to last another 7–10 years, depending on the rates of return and withdrawal.

Cut down on retirement expenses. You may decide to move to a smaller home or apartment or to relocate to a less expensive part of the country. Reevaluate keeping your life insurance, particularly if your mortgage is repaid or nearly repaid and the children are out of the house and nobody is financially dependent on you.

Tap into your home equity (the value of your home minus loans against it). Sell your existing home and purchase a smaller, less expensive home and invest the proceeds or rent and invest the proceeds of the sale. Are you aware that a 1997 tax law allows you to take advantage of up to a $500,000 (if married), $250,000 (if single) capital gains tax break without any age restriction?

Another way to tap equity in a home is to consider a reverse mortgage, which will allow you to stay in your home and receive either a lump-sum payment, a line of credit, or periodic payments based on your home's equity, prevailing interest rates, and your life expectancy.

Earn a higher rate of return. The more you earn on your investments, the less you will need to accumulate. If you can earn even one or two extra percentage points per year both before and after retirement, it can have a sizable impact on the total assets that are accumulated.

For a more detailed description of retirement catch-up strategies, download the ***Guidebook to Help Late Savers Prepare for Retirement*** at http://www.smartaboutmoney.org/.

Inflation, the Silent Thief

The expenses you calculated in Exercise IV-7 (pages 118–119) are based upon today's prices. But we all know that today's prices will not be accurate next year, and certainly not 5, 10, 20, or 30 years from now when you plan to retire.

Inflation, even if it is a low rate, will erode the value of your retirement savings. The longer the period you plan to be retired, the greater the potential erosion. Long-term projections are difficult to make but should still be attempted. Many of your financial decisions will be greatly affected by inflation.

To estimate your income needs at retirement more accurately, you need to:

- know how long it will be before you retire.
- estimate what the rate of inflation will be (the average from 1926–2007 was 3.1%).
- adjust your estimated expenses for different categories.
- begin with estimates based on current prices.

1. Choose the number of years until your retirement starts from the left-hand column of Table IV-7 (page 127).
2. Select an inflation rate from the row across the top of the table. Inflation cannot be predicted from year to year, so estimate an average annual rate.
3. Read across and down to find the appropriate inflation factor corresponding to your predicted rate of inflation (for example, 10 years at 4% inflation yields a factor of 1.48).
4. Refer back to Exercise IV-7 (pages 118–119). Multiply your answer for total monthly expenses by the inflation adjustment factor to get an idea of how much you will need for your living expenses in the first year of retirement, taking inflation into account.

From the 192-page book *Money Talk: A Financial Guide for Women*, NRAES-160
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EXERCISE IV-10

How $10 a Month Will Grow

	Interest rate earned						
Number of years	4%	5%	6%	7%	8%	9%	10%
1	$122	$123	$124	$125	$125	$126	$127
2	249	253	256	258	261	264	267
3	382	389	395	402	408	415	421
4	520	532	544	555	567	580	592
5	663	683	701	720	740	760	781
6	812	841	868	897	926	957	989
7	968	1,008	1,046	1,086	1,129	1,173	1,220
8	1,129	1,182	1,234	1,289	1,348	1,409	1,474
9	1,297	1,366	1,435	1,507	1,585	1,667	1,755
10	1,472	1,559	1,647	1,741	1,842	1,950	2,066
15	2,461	2,684	2,923	3,188	3,483	3,812	4,179
20	3,668	4,128	4,644	5,240	5,929	6,729	7,657
25	5,152	5,980	6,965	8,148	9,574	11,295	13,379
30	6,940	8,357	10,095	12,271	15,003	18,445	22,793

Adapted from: Matejic, D., and Pankow, D. (1995). *How to Save $1,000 or More a Year*. Rutgers Cooperative Extension.
http://njaes.rutgers.edu/pubs/publication.asp?pid=FS539

Once you have studied the table above, use it to answer the following questions:

1. How much can I set aside each month? $ ____________
2. What is my investment time frame? ____________ years
3. What rate of return do I expect to earn? ____________ %
4. How much money will I have in the future? $ ____________

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TABLE IV-7

Inflation Factors

Years to retirement	Annual rate of inflation								
	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%
1	1.03	1.04	1.05	1.06	1.07	1.08	1.09	1.10	1.11	1.12
2	1.06	1.08	1.10	1.12	1.15	1.17	1.19	1.21	1.23	1.25
3	1.09	1.13	1.16	1.19	1.23	1.26	1.30	1.33	1.37	1.41
4	1.13	1.17	1.22	1.26	1.31	1.36	1.41	1.46	1.52	1.57
5	1.16	1.22	1.28	1.34	1.40	1.47	1.54	1.61	1.69	1.76
6	1.19	1.27	1.34	1.42	1.50	1.59	1.68	1.77	1.87	1.97
7	1.23	1.32	1.41	1.50	1.61	1.71	1.83	1.95	2.08	2.21
8	1.27	1.37	1.48	1.59	1.72	1.85	1.99	2.14	2.30	2.48
9	1.31	1.42	1.55	1.69	1.84	2.00	2.17	2.36	2.56	2.77
10	1.34	1.48	1.63	1.79	1.97	2.16	2.37	2.59	2.84	3.11
11	1.38	1.54	1.71	1.90	2.11	2.33	2.58	2.85	3.15	3.48
12	1.43	1.60	1.80	2.01	2.25	2.52	2.81	3.14	3.50	3.90
13	1.47	1.67	1.89	2.13	2.41	2.72	3.07	3.45	3.88	4.36
14	1.51	1.73	1.98	2.26	2.58	2.94	3.34	3.80	4.31	4.89
15	1.56	1.80	2.08	2.40	2.76	3.17	3.64	4.18	4.78	5.47
16	1.61	1.87	2.18	2.54	2.95	3.43	3.97	4.60	5.31	6.13
17	1.65	1.95	2.29	2.69	3.16	3.70	4.33	5.05	5.90	6.87
18	1.70	2.03	2.41	2.85	3.38	4.00	4.72	5.56	6.54	7.69
19	1.75	2.11	2.53	3.03	3.62	4.32	5.14	6.12	7.26	8.61
20	1.81	2.19	2.65	3.21	3.87	4.66	5.60	6.73	8.06	9.65
21	1.86	2.28	2.79	3.40	4.14	5.03	6.02	7.40	8.95	10.80
22	1.92	2.37	2.93	3.60	4.43	5.44	6.66	8.14	9.93	12.10
23	1.97	2.47	3.07	3.82	4.74	5.87	7.26	8.95	11.03	13.55
24	2.03	2.56	3.23	4.05	5.07	6.34	7.91	9.85	12.24	15.18
25	2.09	2.67	3.39	4.29	5.43	6.85	8.62	10.83	13.59	17.00
26	2.16	2.77	3.56	4.45	5.81	7.40	9.40	11.92	15.08	19.04
27	2.22	2.88	3.73	4.82	6.21	7.99	10.25	13.11	16.74	21.32
28	2.29	3.00	3.92	5.11	6.65	8.63	11.17	14.42	18.58	23.88
29	2.36	3.12	4.12	5.42	7.11	9.32	12.17	15.86	20.62	26.75
30	2.43	3.24	4.32	5.74	7.61	10.06	13.27	17.45	22.89	29.96

Example:

1. You would like to retire at age 63, 12 years from now.
2. You think the inflation rate will rise slowly and average about 4%.
3. 12 years at 4% = 1.60 inflation factor.
4. Your estimated retirement income of $20,400 x inflation factor of 1.60 = $32,640 income needed for the first year of retirement to live as you plan to.

10 Tips for Securing a Worry-Free Retirement

1. *Plan for inflation to be higher than you think, rather than lower.*
2. *Practice living on the income you expect to receive during retirement.* If you are saving/investing up to 20% of your income, you are already living at 80%.
3. *Live beneath your means.* Scale back your lifestyle now to make an easier adjustment later on. Make wise choices with your spending in favor of financial priorities. Remember that all the major purchases you make now will have retirement implications.
4. *"Pay yourself first" each payday.* Set aside at least 5% of your income, perhaps up to 20%. If money can be saved through payroll deductions or automatic investment plans, you won't see it or spend it. Think of saving and investing as your number-one financial obligation each month.
5. *Start planning and preparing early.* However, it's also never too late to get started.
6. *Save and invest wisely.* It's imperative that you keep ahead of inflation and shelter investment earnings from taxes, where possible.
7. *Explore career possibilities you can pursue later in life.* Many people have turned a hobby into a paying venture.
8. *Mentally prepare yourself for retirement.* Assess your goals and values and relate them to how you would like to live. Think about possibly relocating as you travel to different areas of the country.
9. *Carefully analyze early retirement incentive plans* if you don't have substantial savings and investments to rely on. Always compare the offer to what you could receive if you stayed until age 62 or 65. Seek professional help before making a decision.
10. *Stay invested.* Experts agree that while many of us can remember individual days in which the market moved wildly up or down, over the long term, it tends to rise. Historical data indicate that staying invested—riding out those highs and lows—is a valid long-term strategy. Market timing does not work. So the solution is "stay the course." It's a time-proven investment strategy.

Your Minimum "Need to Knows" about Planning for Retirement

- Women generally live longer than men, but many have far less money in retirement.
- Your preretirement decisions will affect your ability to realize your retirement goals.
- Social Security will probably still be there when you retire, but it will cover only 25–40% of your retirement needs.
- Your retirement income will come from a number of sources: the government, your employer, your savings and investments, and possibly, full- or part-time employment.
- Even a low rate of inflation will erode the value of your retirement nest egg.
- Traditional company pensions are rare—today you must manage your own pension, e.g., employer 401(k) and 403(b) plans.
- Always make the maximum allowable contributions to retirement plans if you can. It will make a big difference in 20 years.
- Throughout your working life, estimate where you are in your retirement savings goals and whether you are on target or need to make up for lost time.
- Although some expenses decrease in retirement, be prepared for others to increase. Most experts say you need between 70 and 100% of your preretirement income to live in retirement.

Keeping Your Financial Records in Order

If you are like many people, you have a collection of financial "stuff" that you don't know whether to keep or to toss out.

Keep your investment statements for two reasons:

- You can check for mistakes made by your broker or mutual fund company and reported to the IRS. If you sold any securities during the year (e.g., stocks, bonds) or received any dividends, your broker or mutual fund company will send you a 1099 form and a matching one to the IRS to report the income or loss.
- Your statements will help keep you from paying too much tax because they allow you to track reinvested dividends and capital gains. Each time you reinvest, it's equivalent to the broker sending you a check and your returning it to purchase additional shares of stock. At the time of sale, you are permitted to indicate exactly which shares you want sold (identified by date of purchase). Usually the shares with the highest cost basis will have a more tax-favorable status in a rising stock market. For mutual funds, you will be able to track the taxes paid every year on the dividends and capital gains the fund distributed. You will add them to your cost basis when you sell.

For income tax filing, it is necessary to have records of the date you acquired an asset, its purchase price, and your date of sale or transfer to another investment. Complete Exercise IV-11 and update it as necessary. If records are lost, try contacting the company, checking for prices in the business reference section of your library, or paying a professional advisor to do the digging for you.

Cost basis. An investment's original cost. This number, which is used for tax purposes, also includes transaction costs plus reinvested dividends and capital gains.

These Items Are "Keepers"

1. Your tax returns. Copies from up to six previous years can be retrieved from the IRS for a charge. You need to keep the supporting documentation for your tax returns (e.g., 1099s or brokerage statements) for at least 3 years after you file. After that, you can be audited only if the IRS suspects fraud.
2. Your settlement documents on any house closings, including mortgage papers.
3. Retirement plan records. This includes records of contributions to plans, loans and distributions from the funds, conversions, and rollovers.
4. Records of purchase and sale of every investment you own, whether bought by you, received as a gift or inheritance, or given as a gift. The documentation should be kept for as long as you hold the asset, plus at least 3 years.
5. Regular statements from brokerage accounts, mutual funds, limited partnerships, bank CDs, etc. Once you have received your annual summary statement, the monthlies or quarterlies can be tossed.

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EXERCISE IV-11

Purchase and Sale of Assets

Date of purchase or inheritance	Type of security	Number of shares	Purchase price or inheritance value* ($)	Date of sale or transfer	Amount of sale** ($)

* The purchase price plus cost of purchase, such as commission. For inherited assets, enter the value on the date of death.
** The amount received from the sale of an asset excluding commissions or fees.

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Your Minimum "Need to Knows" about Building a Portfolio and Keeping Your Investment House in Order

- Investing is not a one-time shot, but an ongoing lifelong process.
- Reinvesting dividends and capital gains is the best way to systematically grow your portfolio.
- Set up a plan in which you invest regularly, e.g., dollar-cost-averaging, and use a buy-and-hold strategy in your taxable accounts to minimize taxes.
- Index funds are a good choice for the core of both your tax-deferred and taxable accounts.
- Occasional rebalancing—generally not more than once or twice a year—may be necessary to keep your asset allocation at the correct proportions.
- Once you settle on a sensible investment plan that suits you, commit to it and believe in its logic. This will keep you going when markets are in a downturn.
- Good record keeping is essential to avoid overpayment of taxes at the time of sale.

Withdrawals—How to Make Your Money Last

No single withdrawal rate is "just right" for every individual. People have different goals and family situations. Some may want to spend down to the last dollar and others to leave a large inheritance. You may hear or read advice that advocates withdrawal rates of anywhere from 3 to 10% as "safe." The newer research however, using various asset allocation models and payout rates, suggests a first-year withdrawal rate of between 4 and 5% of your retirement assets (e.g., 4% of $100,000=$4,000). Thereafter, each year you would increase the withdrawal amount by the inflation rate for that year (e.g., 3% of $4,000=$120, for a second-year withdrawal of $4,120). The 4% rate is based on an asset allocation of 60% stock/40% fixed income. This gives you the best chance of not outliving your money, rather than the other way around.

If you're a very conservative investor, you'll need to withdraw less (e.g., 3%). These conservative withdrawal rates would be particularly important if you were to go into retirement when the stock market is in a downturn and stays there for a while. If you could be guaranteed a bull market, such as we experienced throughout the late 1990s, you could make withdrawals at a higher rate. The difference between 4 and 8% may not seem very significant, but it is. It could spell disaster, especially if you are planning an income stream for 30–40 years. Later on in your retirement, perhaps you could withdraw more.

Annuities

If you seek the comfort of knowing you'll have a guaranteed income, then you may wish to purchase an immediate annuity, through which you trade your lump sum principal for a lifetime income stream. The downside of this strategy is that your monthly payments will not keep up with inflation—they remain the same for life. Also, you don't get to leave an inheritance (what is left reverts to the insurance company) unless you choose certain options, all of which lower your payment.

Below are the common payout options from an annuity.

Life annuity. You get the largest checks with this choice, and payments will continue for your lifetime—and only your lifetime. Payments do not continue to your beneficiaries.

Joint and survivor annuity. This option provides a continuing income for your spouse should you die first—from 50 to 100% of what you were receiving. Monthly payments are lower than those for a single life annuity because they are extended over the lifetimes of two people instead of one.

Cost of living adjustments. With this option, your annuity would begin at a lower rate but would be increased each year for inflation.

Life-with-period-certain annuity. This option gives you a lifetime income plus a guarantee of payments for 10 years or more. If you should die within that time, your beneficiary collects the remaining payments.

Refund annuity. This plan guarantees a return of premiums paid to purchase an annuity to the beneficiary if the owner dies before sufficient payment.

When you purchase an annuity, two considerations are of great importance. First, buy only from companies rated A or better by the authoritative rating companies, such as Standard and Poor's, Duff and Phelps, and A.M. Best (see Session III, page 80, for Web sites). Second, shop around for the best terms. Each company may quote a different amount of income for the same amount of principal. Use the Web site www.annuityshopper.com to help with comparisons.

How to Choose Financial Professionals

It's time to take a good look at your needs, interests, and lifestyle. Over the course of your adult years, the minimum financial chores you will need to handle are your investments; securing and paying off loans; buying or selling a house; insuring your home, property, and health; and protecting yourself against catastrophic losses, as well as developing a plan to pass on your home and assets to your beneficiaries.

A lot of those jobs you can do on your own, if you have the interest and take the time to develop the expertise. The knowledge is available to you in personal finance classes, books, magazines, newspapers, newsletters, and via the Internet. However, more often than not, you will need some outside help, even if it is just someone who looks over your financial plan and gives you the confidence to proceed.

Even though professional help is frequently very important to personal money management, should you choose the wrong advisor, your financial security could be in jeopardy. So before you go out and sign on with a financial planner, attorney, accountant, or stockbroker, understand that the right way to pick advisors requires discipline and attention to detail. Here's a way to get started:

- Prepare a list of referrals from friends and other professionals.
- When possible, gather some preliminary information, such as number of years in practice and professional qualifications. Some professionals will send you a resume. You might also be able to get information from national professional associations by telephone or via their Web sites. For financial planners, check www.fpanet.org, www.napfa.org, or www.cfp.net.
- Remember the "Rule of Three": Interview at least three advisors. Use the *Comparison of Financial Professionals* interview form on page 134 to help you in your search.

Below are the generic questions that you would ask any professional. Then we'll move into special questions for each type of financial advisor.

1. *How many years have you been in practice?* At least 3 years' experience in dealing with financial issues such as yours is desirable.
2. *What are your qualifications?* Ask about formal education and certifications in the field and how he/she keeps his/her knowledge updated.
3. *Will there be a written contract?* Unless you pay for each visit, a contract is a must to confirm your fee and service agreements. The contract should list the tasks the professional is to perform, provide an estimate of fees or a statement of how charges are made, and explain how you will be billed, e.g., quarterly, annually.
4. *How do you calculate your fees* (e.g., hourly rate)? Do research to find out what the range of fees should be for the type of professional you are hiring.
5. *How long should the work take to complete?*
6. *Will you be delegating any of the work?* If so, at what rate and to whom?
7. *May I have references to contact?* (Ask about clients in similar circumstances to yours.)

Use the worksheet in Exercise IV-12 to compare the qualifications and fees of three financial professionals.

Hiring A Financial Planner

Qualified financial planners take a broad view of your financial situation and design an overall strategy to meet your personal financial goals. This necessitates an in-depth look at your entire financial situation, current cash flow, budget, net worth, savings, investments,

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EXERCISE IV-12

Comparison of Financial Professionals

	Professional 1	Professional 2	Professional 3
Specialty area			
Name			
Address			
Phone number			
Referred by			
Years of experience			
Degrees or certifications			
Verbal or written contact?			
Issues to cover			
Compensation: flat rate, hourly, retainer, commissions, etc.			
How many meetings?			
Delegation of work?			
References?			
Charge for telephone calls?			
Other questions			

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taxes, insurance, and retirement and estate arrangements. You will want to look for financial planners who evaluate your entire financial picture rather than address only investments.

Just as you would with any person you pay for advice, you need to carefully check credentials. There is little regulation of the financial planning industry. In most states, anyone can claim to be a financial planner, regardless of training. Many of these individuals have professional experience as insurance agents or stockbrokers. Others have related professional careers such as bankers, accountants, and tax and estate planning lawyers. However, only some of these people have taken specialized courses and examinations in all aspects of financial planning and must complete ongoing education credits as well as ethics courses.

The most recognized credentials to look for are Certified Financial Planner® (CFP®) or Chartered Financial Consultant (ChFC). Beyond credentials, look for extensive financial planning experience. And remember, even with credentials and experience, there are still no absolute guarantees of ethical practice.

What Do the Letters Mean?

Below are professional designations established by self-regulatory membership organizations—not by state or federal regulatory agencies—that signify study in specific areas.

- *CFP®* licensees have to complete a course of study and pass examinations in risk management, investment, tax planning, retirement planning, and estate planning. They must also have a minimum of three years of work experience, continue to update their knowledge in the field, and adhere to a prescribed code of ethics. CFP® licensees are certified by the Certified Financial Planner Board of Standards, Inc. (CFP Board).
- People holding the *ChFC* designation complete courses in economics, investments, insurance, taxation, and related areas from the American College in Bryn Mawr, Pennsylvania. This designation is an outgrowth of the Chartered Life Underwriter program, which indicates extensive study of insurance. Ethics requirements also apply to holders of this designation.
- Personal financial specialist (PFS) designations are obtained by some certified public accountants (CPAs). The designations call for additional specialized education, and other requirements established by the American Institute of CPAs must be met. CPAs with the PFS designation provide a broad range of personal financial services, which may include investment advice.

Locating Financial Planners

Interview several financial planners so that you will have choices to evaluate. Get references from friends and other professionals. For lists of financial planners in your areas, check with the following organizations:

National Association of Personal Financial Advisors (NAPFA)
3250 North Arlington Heights Road, Ste. 109
Arlington Heights, Illinois 60004
847-483-5400
www.napfa.org

Financial Planning Association (FPA)
Suite 400
4100 E. Mississippi Avenue
Denver, Colorado 80246-3053
800-322-4237
www.fpanet.org

Society of Financial Service Professionals
17 Campus Boulevard
Suite 201
Newtown Square, PA 19073-3230
610-526-2500
www.financialpro.org

Know How Your Financial Planner Earns Income

Many financial planners make all or part of their income from commissions on the products they sell. One way to avoid any conflict of interest is to select a fee-only planner. However, you will find that there are many more commissioned planners than fee-only. Check with NAPFA for the names of fee-only planners in your area.

Fee-only planners. Financial planners who are compensated from client fees only. They charge for gathering and analyzing your financial data and recommending a plan of action. They do not earn income from the financial products they might suggest you buy. Fees are typically from $125 to $250 per hour; flat fees for a plan are based on an estimate of the work involved. Ask if a fee-only planner is NAPFA-registered. This indicates a high level of continuing education and peer review.

Commission-only planners. Financial planners who earn their money through commissions paid by the sponsors of the investment products (e.g., annuities and mutual funds) they sell.

Fee and commission planners. Financial planners who are sometimes called "fee-based" or "fee-offset" planners usually are compensated by some combination of commissions for products sold, flat fees for financial plans, and "trailing fees" on assets under management. Sometimes the planner's commissions will reduce the initial planning fee that the planner quotes the client. This is known as "fee-offset" compensation.

Choose your financial planner wisely and be an informed consumer. Following is a five-page questionnaire to ask your prospective financial planner to complete. It was developed by NAPFA. Photocopy it, and if you like what you see in the answers, call and ask the planner for a free half-hour get-acquainted meeting. Select a planner on the basis of qualifications and rapport. You want someone you'll enjoy working with and trust.

Hiring an Accountant

Accountants may serve as a possible source of financial investment advice. Usually accountants provide relatively generic advice on investment information rather than recommending particular investments. They can help you evaluate the possible effects of investment alternatives on your overall financial condition, income taxes, and future taxes.

- Enrolled agents are tax preparers who have passed an IRS certification examination and are qualified tax advisors.
- Public accountants are licensed and trained in accounting. They cannot represent you before the IRS in an audit.
- CPAs obtain extensive education and experience in accounting, auditing, economics, finance, management, and taxes to become certified and licensed to practice. They must also take ongoing continuing education courses to maintain their certification.

Although anyone can be a paid tax preparer, only an enrolled agent, CPA, or tax attorney can represent you in an audit.

Questions to Ask a Tax Professional

1. Is doing tax returns a regular part of your business?
2. What kind of training do you have?
3. Are you available to answer tax questions throughout the year?
4. Are you experienced with tax situations like mine?
5. Are you conservative or aggressive in interpreting tax laws and regulations?
6. How much help would you provide if I were audited?
7. How much will preparing my return cost?

Hiring an attorney

Attorneys can provide information about legal and tax implications of a particular investment but do not generally advise you on which investments to make. They are the only professionals who can provide legal advice, resolve legal and property transfer issues, and prepare legal documents (e.g., wills and trusts).

Attorneys may charge a flat fee for a particular service, an hourly rate, or a combination of the two. Because attorney fees tend to be high, they are most often consulted for specific questions or issues (e.g., estate administration).

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Financial Planner Interview Questionnaire

Background and Experience

The backgrounds of financial planners can vary as much as the services offered. A planner's education and experience should demonstrate a solid foundation in financial planning and a commitment to keeping current.

Note: A yes or no answer requiring explanation is not necessarily cause for concern. The National Association of Personal Financial Advisors (NAPFA) encourages you to give the advisor an opportunity to explain any response.

1. What is your educational background?

   ☐ College degree and area of study: ____________________

   ☐ Graduate degree and area of study: ____________________

2. What are your financial planning credentials/designations and affiliations?

   ☐ NAPFA-Registered Financial Advisor (60 hours continuing education every 2 years)
   ☐ Certified Financial Planner (CFP) (30 hours continuing education every 2 years)
   ☐ Chartered Financial Consultant (ChFC) (30 hours continuing education every 2 years)
   ☐ Certified Public Accountant/Personal Financial Specialist (CPA/PFS) (60 points every 3 years)
   ☐ Financial Planning Association (FPA) (continuing education not required)
   ☐ Other:

3. How long have you been offering financial planning services?

   ☐ Less than 2 years ☐ 6–10 years
   ☐ 2–5 years ☐ More than 10 years

4. Do you have clients who might be willing to speak with me about your services? ☐ Yes ☐ No

   If no, explain ____________________

5. Will you provide me with references from other professionals? ☐ Yes ☐ No If no, explain

   ____

   ____

6. Have you ever been cited by a professional or regulatory governing body for disciplinary reasons?

   ☐ Yes ☐ No

   If yes, explain ____________________

   ____

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Financial Planner Interview Questionnaire

(continued)

7. Describe your financial planning work experience or attach your resume.

____

____

____

____

____

____

Services

Financial planners provide a range of services. It is important to match client needs with services provided.

1. Do you offer advice on: (check all that apply)
   - ☐ Goal setting
   - ☐ Cash management and budgeting
   - ☐ Tax planning
   - ☐ Investment review and planning
   - ☐ Estate planning
   - ☐ Insurance needs in the areas of life, disability, long-term care, health, and property/casualty
   - ☐ Education funding
   - ☐ Retirement planning
   - ☐ Other: ____

     ____

2. Do you provide a comprehensive written analysis of my financial situation and recommendations?
   ☐ Yes ☐ No
3. Does your financial planning service include recommendations for specific investments or investment products? ☐ Yes ☐ No
4. Do you offer assistance with implementation of the plan? ☐ Yes ☐ No
5. Do you offer continuous, on-going advice regarding my financial affairs, including advice on non-investment-related financial issues? ☐ Yes ☐ No
6. Do you take possession of, or have access to, my assets? ☐ Yes ☐ No
7. If you were to provide me on-going investment advisory services, do you require "discretionary" trading authority over my investment accounts? ☐ Yes ☐ No

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Financial Planner Interview Questionnaire

(continued)

Business Practice

1. How many clients do you work with? ______________________________
2. Are you currently engaged in any other business, as a sole proprietor, partner, officer, employee, trustee, agent, or otherwise? (Exclude non-investment-related activities which are exclusively charitable, civic, religious, or fraternal and are recognized as tax-exempt.) ☐ Yes ☐ No

   If yes, explain: ______________________________

   ____

3. Will you or an associate of yours work with me?

   ☐ I will

   ☐ An associate will

   ☐ We have a team approach

   If an associate will be my primary contact, complete questions 1–7 in the Background and Experience section for each associate as well.

4. Will you sign the Fiduciary Oath below? ☐ Yes ☐ No

Fiduciary Oath

The advisor shall exercise his/her best efforts to act in good faith and in the best interests of the client. The advisor shall provide written disclosure to the client prior to the engagement of the advisor, and thereafter throughout the term of the engagement, of any conflicts of interest which will or reasonably may compromise the impartiality or independence of the advisor.

The advisor, or any party in which the advisor has a financial interest, does not receive any compensation or other remuneration that is contingent on any client's purchase or sale of a financial product. The advisor does not receive a fee or other compensation from another party based on the referral of a client or the client's business.

5. Do you have a business continuity plan?

   ☐ Yes ☐ No

____

If no, explain: ______________________________

____

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Financial Planner Interview Questionnaire

(continued)

Compensation

Financial planning costs include what a client pays in fees and commissions. Comparison between planners requires full information about potential total costs. It is important to have this information before entering into any agreement.

1. How is your firm compensated and how is your compensation calculated?

   ☐ Fee only (as calculated below)

   Hourly rate of $____________/hour

   Flat fee of $____________

   Percentage_______% to ________% of __________

   ☐ Commissions only; from securities, insurance, and/or other products that clients buy from a firm with which you are associated

   ☐ Fee and commissions (fee-based)

   ☐ Fee offset (charging a flat fee against which commissions are offset). If the commissions exceed the fee, is the balance credited to me? ☐ Yes ☐ No

2. Do you have an agreement describing your compensation and services that will be provided in advance of the engagement? ☐ Yes ☐ No

3. Do you have a minimum fee? ☐ Yes ☐ No

   If so, explain: ____

   ____

   ____

   ____

4. If you earn commissions, approximately what percentage of your firm's commission income comes from:

   ________% Insurance products

   ________% Annuities

   ________% Mutual funds

   ________% Limited partnerships

   ________% Stocks and bonds

   ________% Coins, tangibles, collectibles

   ________% Other: ____

   ________% Other: ____

   100 %

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Financial Planner Interview Questionnaire

(continued)

5. Does any member of your firm act as a general partner to, participate in, or receive compensation from investment companies whose products you may recommend to me? ☐ Yes ☐ No

6. Do you receive referral fees from attorneys, accountants, insurance professionals, mortgage brokers, or others? ☐ Yes ☐ No

7. Do you receive on-going income from any of the mutual funds that you recommend in the form of "12(b)1" fees, "trailing" commissions, or other continuing payouts? ☐ Yes ☐ No

8. Are there financial incentives for you to recommend certain financial products? ☐ Yes ☐ No

   If so, explain: ____

   ____

   ____

Regulatory Compliance

Federal and state laws require that, under most circumstances, individuals or firms holding themselves out to the public as providing investment advisory services be registered with either the U.S. Securities & Exchange Commission (SEC) or the regulatory agency of the state in which the individual/firm conducts business.

1. I (or my firm) am registered as an Investment Advisor

   ☐ With the SEC

   ☐ With the state of ____________________

Please provide your Form ADV Part II or brochure being used in compliance with the Investment Advisors Act of 1940.

If not registered with either the SEC or any state, please indicate the allowable reason for non-registration.

____

____

____

____

Signature of Planner: ______________________________

Firm Name: ______________________________

Date: ______________________________

Adapted with permission from the National Association of Personal Financial Advisors, Arlington Heights, IL. <www.napfa.org>

Questions to Ask an Attorney

1. What are your areas of concentration?
2. Will you charge me for an initial consultation?
3. Are your clients primarily individuals or companies?
4. What steps will you follow once you know my financial goals?
5. How much of the required work will you do yourself and how much will be delegated to other attorneys or paralegals?
6. Will you provide me copies of all relevant correspondence and documents?
7. How is your fee structured? Is it hourly, flat fee, or flat fee-plus?
8. What other costs might I incur, e.g., photocopies, fax, telephone?
9. How can I reduce my costs?
10. What experience do you have in the areas in which I'm interested?

Hiring a Stockbroker

A registered representative (commonly called a stockbroker, but sometimes referred to as a financial consultant, account executive, or registered investment adviser) is someone who is employed by a registered broker-dealer firm and who is authorized to buy and sell stocks, bonds, mutual funds, or certain other securities for investors. Registered representatives must be licensed through the Financial Industry Regulatory Authority (FINRA), a self-regulatory organization, and registered in each state in which they conduct business. Registered representatives must pass a variety of securities examinations, depending upon the type of investments they are selling.

Full-service brokerage firms offer investment advice and usually have research departments that provide reports and other services to evaluate investment alternatives for their clients. One alternative to working with a full-service broker is to subscribe to an investment advisory newsletter or service. Then you would place your order with a discount stockbroker or directly with the source, such as a mutual fund company.

Discount brokers are useful when you know what investments you want to make and you don't need investment advice or help in examining investment strategies and alternatives. Some larger discount brokerage firms may provide some reports and other information services that investors can use in evaluating various investment choices. Commissions at discount brokers may be 30–70% less than at full-service brokers. However, there may be a minimum fee.

Hiring a Real Estate Broker

You can buy or sell real estate without a broker. However, before you list your property as "for sale by owner," review what a good real estate broker can do for you:

- provide information about the recent sales prices of comparable properties.
- familiarize you with the community you are considering (quality of schools, safety, traffic, and amenities).

Questions to Ask a Stockbroker

1. Is the firm a member of a recognized national stock exchange, the FINRA, or the SIPC (Securities Investor Protection Corporation)?
2. Are you and the firm duly licensed in the state? (Check with your state securities regulator. Contact information is available from www.nasaa.org.)
3. For full service, what access will I have to my account executive?
4. What kinds of research do you offer and how often will I receive it?
5. Will you supply copies of research used as the basis for evaluating a specific security, and will you provide an analysis?
6. Will your recommendations be consistent with the size and objectives of my portfolio?
7. What are your transaction fees?
8. Will you provide the names of three current clients that I might contact as references?

- help you find a property to buy.
- help you obtain financing.
- provide suggestions to help you prepare your house for sale.
- use a multiple listing service (MLS) to advertise your home or find homes for sale.
- find and qualify buyers for property you want to sell.
- market your home, e.g., host open houses.
- negotiate contracts or agreements for you.
- prepare the contract and other pertinent paperwork.

Real estate brokers that help buyers usually represent the seller. (That's who is paying the commission.) Ask your broker if he or she represents the buyer, seller, or both. Ask how he or she would handle the conflict of interest that might arise if you (the buyer being represented) were interested in a property that his or her agency had listed (representing the seller).

When you plan to sell your house, ask at least three brokers to supply a market analysis on your home and their recommendation of a sale price. Be wary of a broker who suggests asking a price that is out of line with the suggestions of other brokers. Too high a price is likely to hurt the chances of a sale; too low a price will lose you money. Go with a broker who can place your home on the MLS, a broker information network that publicizes homes for sale.

Eight Steps to Hiring a Financial Professional—A Review

1. Determine your financial needs and objectives.
2. Check your conclusions with someone familiar with your financial status.
3. Learn as much as you can about various investment options.
4. Learn as much as you can about the various types of financial professionals and services.
5. Attend unbiased public seminars.
6. Get recommendations from others.
7. Get names from professional associations.
8. Interview at least three financial professionals for each advisor position you wish to fill.

Questions to Ask a Real Estate Broker

1. Are you a licensed broker, an agent, or a sales associate?
2. How long have been licensed?
3. Are you a member of the National Association of Realtors?
4. Do you work full-time as a real estate professional?
5. How long have you been involved in this town/neighborhood/county?
6. Can you provide three references of recent clients?
7. What houses have you sold in the past 60 days?
8. What is your marketing plan to sell my home?
9. What services does your company offer?

How to Check Your Broker's or Planner's Background or Make a Complaint

To check a planner's or broker's background, start with your state securities administrator. That office will send you background materials on the advisor and can tell you about any pending or prior disciplinary actions against both the advisor and the firm.

Then move on to the FINRA public disclosure phone center at 800-289-9999 or use the SEC's Investment Adviser Public Disclosure database at www.finra.org. to find out if the agency has any complaints or cases pending against member broker-dealers.

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Money Talk: A Financial Guide For Women

Action Steps

SESSION IV: **Investing for Retirement**

- ☐ Determine your desired investment asset allocation model.
- ☐ Determine the minimum interest rate you need to break even with taxes and inflation.
- ☐ Use *Your Investment Portfolio* (Exercise IV-2, page 108) to list asset allocation and specific securities.
- ☐ Estimate the annual return for each of your investments or for your total portfolio.
- ☐ Answer the questions in *How Much Money Will You Need For Retirement?* (Exercise IV-5, page 114).
- ☐ Use Table IV-6 (page 117) to determine your full retirement age for Social Security.
- ☐ Use the *Estimated Cost of Living* worksheet (Exercise IV-7, page 118) to estimate retirement expenses.
- ☐ Use the *Estimating Your Retirement Income* worksheet (Exercise IV-8, page 121) to identify sources of retirement funds.
- ☐ Calculate your retirement savings need using the *Ballpark Estimate* worksheet (Exercise IV-9, page 123).
- ☐ Use a file folder for each investment to store account purchase and sale records.
- ☐ Interview at least three financial services professionals before hiring an advisor.
- ☐ Use the *Comparison of Financial Professionals* worksheet (Exercise IV-12, page 134) to compare advisors.

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