volume 9, number 2

21st century retirement

Dan Gaugert, CLU, ChFC

Gaugert Financial

525 E. Jones St.
Raleigh, NC 27601-1137
V: (919) 863-4111
F: (919) 836-8045
dan@gaugertfinancial.com
gaugertfinancial.com

Securities Offered through Capital Investment Group, Inc.
17 Glenwood Ave. Raleigh, NC 27603
919-831-2370 Member NASD/SIPC

in this issue:

Retirement—A Community Audition

a house once filled with the constant, clamoring sounds of a growing family has grown silent. Family visits have become few and far between. The silence seems deafening. If these thoughts seem familiar, maybe you and your spouse have outgrown a home you once considered to be too small.

Life changes can raise housing questions regarding physical layout, maintenance, location of various resources, social interaction, and consistency with prior lifestyle. If you have lived in the same home for many years, the decisions about future housing can be difficult. Your family home may have provided continuity in terms of familiarity and community, and it may be paid for by the time of retirement. However, its size and maintenance requirements may have been more appropriate to the time when children were home and when your energy was greater. Also, the family home can feel isolating if its location limits access to social support systems (particularly when lifelong friends have died or moved away).

Although our specific housing needs change as we age, shelter, in any form, is always much more than mere physical comfort. It is a financial, psychological, and social base, which anchors our sense of stability. For this reason, it is common to find people who had moved to warmer climates in their early retirement years later returning to the familiarity of their original communities and the proximity of family and friends.

With many other soon-to-be seniors finding themselves in similar situations, **retirement communities**, also known as **55+ communities**, have become a possible alternative for people looking to downsize their homes.

continued on page four

Getting Up to Speed as Retirement Draws Near

If you're a member of America's largest generation, the baby boomers, you'll be entering retirement in the coming years. With this in mind, *now* may be a good time to review some of the retirement planning choices you're bound to encounter in the years ahead.

Pension Payout Options

If you have a company pension plan, you will need to make some decisions about *how* you wish to receive your pension proceeds when you retire. Generally, you'll be given the choice between receiving income for the rest of your life **(single life option)**, receiving an income for the life of you and your spouse **(joint and survivorship option)**, or receiving a **lump-sum** distribution.

Each option presents its own potential advantages and disadvantages. For instance, a single life option will pay a higher income than a joint and survivorship option. However, if you take the single payout option, income will cease upon your death, whereas if you take the joint and survivorship option, payments continue for the life of both you *and* your spouse. With both payout options, you give up your pension balance in exchange for income.

If you would prefer to have full control over your pension assets during retirement, or if you are concerned that your pension income will not keep pace with the cost of living or your intended lifestyle, you might consider taking a lump-sum distribution. You can receive the pension proceeds net of income taxes or roll them over into a **traditional Individual Retirement Account (IRA)** where retirement assets will continue to benefit from tax deferral (mandatory minimum distributions must commence at age 70½). Either choice allows you to actively manage your own retirement assets.

Qualified Plan Proceeds

If you're a participant in an employer-sponsored retirement plan (for example, a **401(k)**), you'll also have the option of receiving a lump-sum withdrawal net of income taxes or rolling over the proceeds into an IRA. Once you retire, you'll be required to actively manage your retirement assets. Therefore, it will be crucial to make prudent savings decisions that are consistent with your goals and objectives.

Shortfall Planning

As you approach retirement, you should continually reevaluate your planning to help ensure that you will meet your retirement funding goals. For most individuals, retirement plan assets and Social Security alone will not cover retirement income needs. Therefore, personal savings become equally important to your long-term success. Before you begin your personal retirement savings program, be sure you are fully maximizing contributions to your tax-advantaged, employer-sponsored plan.

There are a number of savings vehicles available to help you close the gap on a retirement funding shortfall. But, without a *disciplined* approach to saving, it will be difficult to achieve the goals you have set for yourself.

Before You Pass Go. . .

As you can see, there are many decisions you'll have to make as you approach the homestretch to retirement. If you were forced to retire *today,* would your resources be adequate to provide a comfortable retirement? Are you prepared for the possibility of needing long-term care? What if you suffered an untimely death? Would your current retirement assets be enough to support your spouse or family? For these and many other reasons, it's important to develop a well-rounded plan designed to meet your particular goals. It's never too early to start!

Planning Retirement: Making the Numbers Add Up

We are living longer, healthier lives. As a result, for many, retirement may last 20 years or more. So, if "time is money," how many years do *you* have in the bank? Because inflation will most likely *decrease* the purchasing power of your money, your dollars may buy less during your retirement than they do today. For example, at 3.5% inflation, $100 today would be worth only $42.31 in 25 years and would be further reduced to $30.00 in 35 years.

The sooner you start building your nest egg, the longer it has to grow. Consider the following examples that assume no taxes or inflation. Suppose, at age 25, you save $100 per month for 20 years and earn 6% interest. If you make no additional contributions after the age of 45 and your savings continue to earn 6% interest, at age 65 your savings will be worth $148,182. However, if you begin at age 45, save $100 per month for 20 years, and earn 6% interest, at age 65 your savings will be worth *only* $46,204. In order to achieve savings of $148,182 over 20 years, you would need to earn interest at a rate of approximately 15% per year—or save significantly more money per month!

While both scenarios illustrate the same amount of money being saved, the additional 20 years and the **compound interest** factor make all the difference in the world. If you are in your prime earning years and start setting money aside *now*, you have a better opportunity to save for the retirement you desire.

Identify Your Goals

The first step in developing a savings strategy that best meets your retirement needs is determining your objectives. How do you envision your "golden years"? Spend some time thinking about what is really important to you. Allow yourself to dream about what you want your future to look like. Thinking about it *early* puts time on your side. At what age do you want to retire? Where do you see yourself living? Do you enjoy travel? Would you like to continue to work at least part-time? Are you imagining yourself playing golf every day? These questions and others will help you shape a vision for your retirement.

Once you have a sense of your objectives, it's time to estimate your financial needs. A good, general rule of thumb is that a person's living expenses in retirement will be roughly 30% less than his or her current expenses. While some costs may increase, such as health care and leisure activities, others most likely may decrease. For example, retirees tend to spend less on mortgages and education.

Know Your Resources

The second step in planning is to determine from where you will attain your retirement money. Most people draw on three main sources of income during retirement—Social Security, employer-sponsored plans, and personal retirement savings. Each offers important resources that will add to your overall retirement plan. The choices you make *today* will invariably influence your financial security in your later years.

With Social Security, the benefits received are based on the income you have earned over the course of your life, subject to a maximum amount. It offers, for most, only a base level of income, which many retirees supplement with savings from employer-sponsored plans, such as pension plans, 401(k) plans, 403(b) plans, Simplified Employee Pensions (SEPs), and Savings Incentive Match Plans for Employees (SIMPLEs). The tax advantages and, in many instances, matching contributions from employers make these savings vehicles a popular complement to personal retirement savings, which often include *traditional* Individual Retirement Accounts (IRAs) and Roth IRAs.

Make a Plan

Now that you've thought about your retirement objectives and your potential sources of income, the last step is developing a plan that works for *you*. Analyze your present spending habits to find out *where* your money is actually going and *how much* you have available to put aside for retirement savings. If you're like most people, you probably could save more money. It may be worthwhile to investigate ways in which you can adjust your lifestyle to decrease spending and, thus, increase the amount available for savings. Can you "nip and tuck" without detracting from your quality of life? Are there short-term sacrifices you are willing to make for long-term gain? When it comes to saving, stick to your plan, but monitor it regularly. Make sure your disciplined approach to saving continues to meet your current needs and your future retirement goals. It's never too late to start saving, and the sooner the better. Put yourself in a position of working toward your retirement goals, as soon as you can.

retirement—a community audition

continued from page one

These neighborhoods, or complexes, which vary from condominium-style settings to single family homes, usually require that at least one member of the household be age 55 or older.

Retirement communities typically offer an active and independent lifestyle to those who do not require **assisted living facilities (ALFs)**. The Housing for Older Persons Act of 1995 eliminated the requirement that these communities have "significant facilities and services designed to meet the physical and social needs of older persons." This legislation has increased the popularity of such communities as an alternative for people age 55 and over who do not require assistive care.

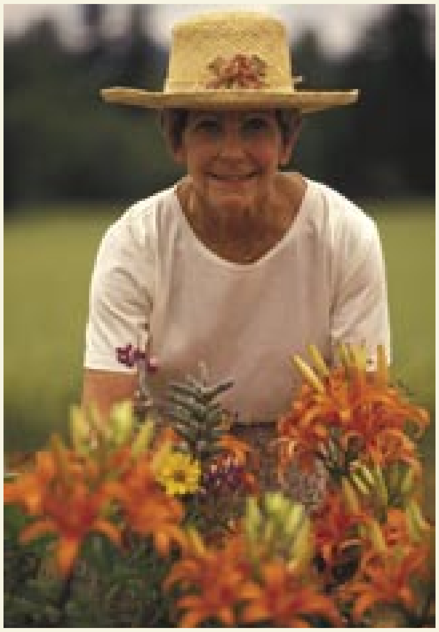
Considerations

Relocation, of any kind, requires a careful examination of the possible pros and cons. Before selling your home to move to the newest 55+ community, consider the following:

Security. Retirement communities may offer security that a typical neighborhood would not. Generally, they have security guards at the entrance of the neighborhood or building. Knowing this added protection exists, you may sleep more soundly at night.

Recreation. With people living longer than ever before, gone are the days when retirement brings to mind an idle existence. These days, retirement can be as active and as fun as you make it. Generally, retirement communities offer a recreation center that manages group activities that may be as vigorous as sporting events or as leisurely as card games.

Medical Facilities. Many retirement communities have medical



facilities located within the property limits. You or your spouse may not require constant care; however, it can be comforting to know that qualified medical professionals are accessible at any time.

Maintenance. Although you might have once considered shoveling snow, mowing the lawn, and picking weeds pleasurable pastimes, they may now be tiresome. Oftentimes, these self-contained neighborhoods handle exterior maintenance—including lawn care and snow removal. A retirement community enables you to enjoy a yard without having to maintain it.

Costs. The services retirement communities provide come at costs that must be considered in addition to typical homeowners' expenses. Usually, there are entrance fees and monthly maintenance costs (similar to condo fees), which may increase your purchase price by thousands of dollars.

Limited Socialization. While many people consider a retirement community's socially-oriented lifestyle an advantage, some consider it a disadvantage. If transportation is not readily available, the prospect of frequently being surrounded by the same group of people could seem confining.

Determining where you want to spend your "golden years" is a decision that requires serious consideration. However, whether you choose to stay in your current situation, decide to call a retirement community home, or opt to explore other living arrangements, it is important that *you* are comfortable with your choice.

The information provided is not written or intended as tax or legal advice and may not be relied on for purposes of avoiding any Federal tax penalties. Individuals involved in the estate planning process should work with an estate planning team, including their own personal legal or tax counsel.

21st Century Retirement is published for the Society of Financial Service Professionals by Liberty Publishing to help keep you up-to-date on the issues which may affect your financial well-being. The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. For specific advice on how to apply this information to your particular circumstances, you should contact your insurance, legal, tax, or financial professional. Printed in March 2007.

Copyright © 2007, Liberty Publishing