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21st century retirement

Dan Gaugert, CLU, ChFC

GaugertFinancial

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

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In order to enjoy your retirement, you should have a good idea of how much money will be needed each year to fund your desired lifestyle. To help ensure that lifestyle, you will need to set aside enough money to supplement known sources of retirement income, such as a company pension and Social Security. Finally, it is important to be aware of how your *age* can affect your retirement decision-making. Here are some important age milestones to consider:

Age 55

If you take "early" retirement, quit, or are otherwise terminated from employment, you can generally withdraw money from **401(k)**, **403(b)**, **Keogh**, **SEP (Simplified Employee Pension)**, and **profit-sharing plans** without being subject to a 10% federal income tax penalty for early withdrawals. In order to meet the qualifications as specified in IRS Publication 575, the individual must attain age 55 by December 31st of the year he or she leaves the workforce, money must stay in and come from the employer's plan and cannot be transferred to an **Individual Retirement Account (IRA)**, early withdrawals are subject to the plan's provisions, and only money from your last employer's plan will qualify (not funds from previous employers). You may take early distributions from a traditional IRA without penalty, provided you receive "substantially equal periodic payments." Certain rules govern this provision, so seek the appropriate counsel.

Age 59½

Generally, you can withdraw money from traditional IRAs and qualified retirement plans after the age of 59½ without being subject to the 10% penalty tax, if plan-specific qualifications are met. Ordinary income tax will be due if your contributions were tax deductible. No income tax or penalty will apply to distributions from a **Roth IRA**, provided you have reached age 59½ and have owned the account for at least five years.

Age 60

Widows and widowers are eligible for Social Security benefits.

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Older Americans Targets of Financial Fraud

America's senior generation grew up in a different world. Earlier decades of the twentieth century were governed by courtesy, good manners, loving one's neighbor as oneself, and trust in one's fellow man. Today, these exemplary standards of conduct are getting seniors into trouble. Con artists, offering a wide variety of too-good-to-be-true investment "deals," are banking on the willingness of older Americans to seal their shady scams with the proverbial handshake. Unfortunately, many seniors today are finding themselves in financial tight spots, making them more inclined to jump at the chance to "double" their money.

Common Scams

With today's multitude of contact options, ranging from the phone to the Internet, scammers have virtually an unlimited number of "ins" when targeting victims. Common scams include e-mailed chain letters that are not only illegal, but also promise a pyramid of payoffs that always fall apart once the victim has bought into the system. Another common scam is one in which a Nigerian prince, doctor, or chief e-mails the victim and claims to need assistance transferring his riches to an American bank account. The victim is promised as much as 30% of the transferred millions and is asked to pay the perpetrator a fee to prove his or her honesty.

Fake charities are another common scam method. Kind-hearted donors are swindled into becoming victims by paying ridiculous sums to a cause that only benefits a con. Phone calls and paper mail are often used to offer individuals the chance to "win" the lottery or claim a sweepstakes prize. In the end, these supposed winnings only end up causing financial loss and heartache. Topping off all of these scams are fraudulent investment opportunities wherein the victim is promised fantastic returns on capital from "lucrative" oil and gas leases, penny stocks, rare coins and metals, etc. The list is endless.

Psychological Tactics

Too often, these scams go unreported because of the shame victims experience once they realize they have been had. And that's just what scammers are banking on. WISE Senior Services teamed up with the AARP to study this growing crime. In a report entitled, "Off the Hook Again: Understanding Why the Elderly Are Victimized by Economic Fraud Crimes," several discoveries were made, including the typical psychological tactics cons use. These tactics increase cons' success rates and decrease the chances of them being reported. Victims may be led to believe that their only option is the one being presented in the scam, or the scammer may befriend the victim knowing full well that people are less inclined to ask friends hard-hitting questions. Another ploy is a request for help from the scammer tapping into the victim's pity. Or the scammer may claim famous investors, like Donald Trump, are also buying into the property, or the product is in such high demand and so rare that the victim is lucky to have even heard about it in the first place.

Con artists may also use their assumed authority roles to coerce victims into letting the con make the decision for them; offer no-risk, guaranteed results; intimidate the victim by playing on his or her fears; or procure more and more payments by telling victims they are committed to the investment and must continue to invest in order to not lose the sums they have already paid.

On paper, these tactics might sound entirely see-through. But in person, they are too often extremely effective. The study also revealed that fraud techniques are often tailored to the psychology of the individual. Financial education, alone, will not be enough to put an end to senior fraud, since one of the study's major findings indicated that senior fraud victims are more financially educated than non-victims and more willing to listen to sales pitches. In addition, victims are more likely to have experienced negative life events, such as job loss, divorce, or the death of a spouse.

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Baby Boomers and the Changing World of Retirement

Over the next two decades, the most chronicled generation in America will gradually enter retirement. At that point, each wave of baby boomers will quickly discover if their retirement plans, Social Security, and personal savings will be sufficient to maintain their existing lifestyles and needs.

Baby boomers—a name given to those born from 1946 to 1965—have been noted for their creation of the "computer age," quest for physical fitness, and expectations for living long and full lives. Now, as the boomers pass into middle age, many are beginning to focus their attention on retirement.

Unlike the previous Great Depression-to-World War II generation, many baby boomers believe they cannot depend on receiving Social Security benefits during their retirement years. In fact, many economists question the future "security" of the Social Security trust funds.

To further compound concern, many employed boomers may not have ***employer-funded* retirement plans**. Since, in today's work world, employ*ees*, rather than employ*ers*, generally assume full responsibility for funding their retirement plans, it is no surprise that uncertainty and worry occupy the minds of many of those without guaranteed pensions.

Broadening Perspectives

What can boomers do to determine if their savings and assets will sufficiently fund their retirement years? Definitive answers are often elusive. After all, life is filled with many variables, and no one really knows for sure what the future holds. However, even with these constraints, boomers can gain much insight by estimating and analyzing the following:

- Potential income sources (e.g., income-producing real estate, inheritances, etc.)
- Projected balances of retirement and savings plans
- Costs of future health care needs
- Annualized rate of inflation over retirement years
- Amount of Social Security income to be received
- Percentage of present income required during retirement years
- Length of years retirement may last or life expectancy

Survey Says. . .

A 2006 survey conducted by the Employee Benefit Research Institute* found that only 24% of Americans are very confident they will have enough money to live comfortably in retirement. In addition, 14% of current workers believe they will need less than 50% of pre-retirement earnings to maintain their standards of living in retirement, and an additional 36% project their needs will be 50%–70% of their current incomes. However, 62% of current retirees report that their needs equate over 70% of their pre-retirement incomes.

As is true of every generation facing the retirement planning process, baby boomers should have a *disciplined* savings program in place. If you're a baby boomer, keep in mind that periodic or haphazard deposits may be counterproductive. With a commitment to success and a scheduled plan, you can work toward building the necessary retirement funds to secure your own financial future.

* Source: *Retirement Confidence Survey*, Employee Benefit Research Institute, 2006.

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Proceed with Caution

Anyone approached with a "must-act-now" deal should take the time to walk away and do some research. Be skeptical, question why the offer is being made to you at that time, and contact the Better Business Bureau to learn more. Don't waste time listening to cold-call sales pitches, and make sure to get second opinions from friends and family before taking action on any hot deal. In the end, follow the golden rule of thumb. If it sounds too good to be true, it probably is.

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Age 62

Some companies may allow retirement at this age with full pension benefits. Moreover, this is the earliest age for receiving regular Social Security benefits, but the benefit will be permanently reduced.

Ages 62–64

The earnings threshold for those still working and collecting Social Security benefits is $12,960 in 2007 (indexed for inflation in future years). There is a $1 loss (a "give-back") in benefits for every $2 earned above that amount. In addition, a portion of benefits may be taxed as income (based on a complex formula that includes wages and tax-exempt income).

Age 65

Most company pension plans provide full benefits. **Medicare** eligibility generally begins at this age. Moreover, those born in 1937 and earlier are eligible for full Social Security benefits. However, "**full retirement age**" for younger workers to receive full Social Security benefits is slowly rising, which affects those born in 1938 and later. For example, full retirement age for those born between 1938 and 1959 rises incrementally until, for those born in 1960 and later, the age for receiving full benefits is 67. Those still working will be able to receive full Social Security benefits regardless of earnings, although some beneficiaries may find a portion of benefits may still be taxed based on a formula that includes wages and tax-exempt income.

Ages 65–67

The lower earnings threshold amount noted above still applies for years prior to full retirement age, *and* a second earnings threshold rule applies for the year in which full retirement age is attained. For those still working and receiving Social Security benefits, there is a benefit loss in 2007 of $1 for every $3 over $34,440 earned for months prior to attainment. The earnings threshold no longer applies once full retirement age is attained. A portion of benefits may be taxed as income (based on a complex formula that includes wages and tax-exempt income).

Age 70½

The required minimum distributions from a traditional qualified retirement plan must generally begin by April 1st of the calendar year following the year in which you reach age 70½. (*Note*: Roth IRAs are not subject to the age 70½ mandatory distribution rules.)

As with all tax planning matters, be sure to consult with a qualified tax professional to help ensure your plans are consistent with your goals and objectives.

Inflation and Your Retirement

Even if your retirement seems years away, it's important that you understand how **inflation** can affect your retirement savings plan. You may be aware that inflation can deteriorate your savings over the course of time. But, how seriously do you consider the impact of a decrease in the purchasing power of your money on your future plans? At 3% inflation, $100 today will be worth only $34.44 in 35 years. Therefore, in order to outpace inflation, your long-term retirement savings plan must account for a decrease in the purchasing power of the dollar over time.

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.

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