written by Christopher L. Hayes, Ph.D.

handbook 4

Placing *You First* Within Financial Transitions

A Guide for Baby Boomers

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NATIONAL ENDOWMENT FOR FINANCIAL EDUCATION

Partnering for Financial Well-Being

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Table of Contents

Introduction 5

Placing *You First* Within Financial Transitions 7

Step 1—Saving for College Tuition & Retirement 8

Step 2—Preparing Your Adult Child for the Financial World 12

Step 3—Controlling Credit Card Debt 14

Step 4—Patient Know Thy Rights 17

Step 5—Relocating An Older Parent 19

Step 6—Partners Must Plan Together 21

Step 7—What to Consider Before Early Retirement 24

Step 8—Prior To Buying or Relocating 26

Step 9—Planning for an Inheritance 28

Step 10—The Importance of Estate Planning 29

Step 11—Preparing for Singleness 31

Step 12—Using the Internet 32

Actions Summary 33

Suggested Reading 34

Introduction

The Baby Boom generation (born between 1946-1963) has marched into every stage of life with a unique set of values, perspectives, and needs. Even planning for retirement, Boomers march to a different beat, which is the reason for this series of handbooks. They were written to encourage Baby Boomers to harness their individuality in addressing present and future needs.

The *You First* Planning Process

Each handbook in this series is based on a concept we call *You First*. The term means that you have the power and ability to chart your own course to actualizing your goals and dreams. *You First* means that you have the power to learn and implement new strategies based on changing needs and circumstances. *You First* encourages you to use outside resources in an ongoing quest to make informed and educated decisions about present and future needs. Most importantly, these handbooks provide you with a foundation to sharpen your skills and abilities, putting you in control of the planning process.

Setting up your personal future is based on five principles:

– *You First* need to *understand* that your older years will be different from what any other generation has experienced.
– *You First* must *recognize* that your future is an individual responsibility. You cannot depend on others to meet your needs in later life.
– *You First* need to *believe* that planning takes minimal effort and will not add burdens to your already busy life.
– *You First* must *recognize* that taking any step forward builds momentum and creates greater opportunity for accomplishing your goals.
– *You First* need to *acknowledge* that your own individuality is a tremendous resource, which will nurture and guide you throughout the process.

The *You First* Steps to Planning

You First, as an infant, couldn't walk. Walking was part of a process that began with crawling

before you advanced slowly onto two feet, with the occasional fall. Likewise, creating the future you want requires taking incremental steps, and sometimes making mistakes. Just like the marathon runner, you set the pace of completing each step in the handbook series. Each step is designed to be fun; and every step contains suggested *You First* strategies, designed to enhance the likelihood of success.

Throughout each booklet you will read quotes from people just like you. These individuals act as companions who make the material "come to life." In fact, each handbook in the series was based on suggestions and insights from fellow Baby Boomers who were interviewed for this project. At the end of each handbook is a series of *You First* action steps based on the material covered.

You First Handbook Background

The *You First* handbooks were created and written by Christopher L. Hayes, Ph.D., professor of gerontology at Southampton College of Long Island University. The materials were developed as part of a National Endowment for Financial Education® (NEFE®) grant titled *Re-Casting Pre-Retirement Planning Information for the 21st Century*, produced by the Center for Aging Research and Education (CARE). An in-depth research report was generated from Baby Boomer focus groups, which encompassed a wide range of socio-economic and racial/ethnic backgrounds. The author of these *You First* handbooks wishes to thank NEFE for its support in helping reshape the scope and nature of pre-retirement planning materials.

The *You First* Handbook Series

Other handbooks in the series are:

– Investing in *You First*
– A Pension That Will Place *You First*
– A New Career That Will Place *You First*
– Caring for the Long Term: *You First* Need Knowledge

"Jack and I married in our early thirties. We were just getting used to the idea of putting some money away for our own retirement when we realized that we needed to plan for our two childrens' college education. We kept asking ourselves, 'How do you do it all'"? —Margaret J. (46 years old)

Placing *You First* Within Financial Transitions

For many Baby Boomers, saving for retirement can be difficult when other expenses loom down the road. Many Boomers believe that saving/investing for one major goal precludes planning for another.

The Purpose Of This Booklet Is Based On Three Specific *You First* Principles:

- *You First* must *recognize* that there are easy-to-implement strategies to address competing demands for your dollars.
- *You First* need to *learn* how other Baby Boomers have successfully addressed financial transitions.
- *You First* must *accept* that you (or your partner) are not solely responsible for dealing with the financial needs of other family members.

"My wife and I make pretty good money, but we were feeling overwhelmed trying to save for our own dreams and recognizing that we had a responsibility to fund our two childrens' college tuition costs. We recently read that it costs $23,000 for one year at a private college—and that was for just one of our children! With a little financial counseling, we started feeling better about it all." —Jack B. (45 years old)

Step no. 1 Saving for College Tuition and Retirement

What did Jack B. find out that helped him with the dilemma many Baby Boomers face? For starters, he learned that between 50 percent and 70 percent of college students receive some form of financial aid. In determining financial aid, retirement and pension funds are not considered. The family also explored the following:

Opening an IRA

Jack and his wife looked into Individual Retirement Accounts (IRA) and then encouraged both of their teenagers to open one in their own names with money they earned during the summer. You can open an IRA with any amount of earned income up to $3,000. Under current tax laws, when the money is withdrawn to pay for college, it is taxed at the child's tax rate, and the penalty is waived. If a child opens a Roth IRA there is an added benefit—contributions (not the earnings) can be withdrawn tax- and penalty-free to pay for college.

Coverdell Education Savings Account

This college savings vehicle will allow parents to make a non-deductible contribution of $2,000 per year per child to an IRA (subject to phase-out for certain high-income contributors). You may withdraw the entire amount tax-free to pay for such costs as tuition, housing, fees, and food, and take an educational tax credit as long as there are qualified expenses to cover both.

College Savings Bank

This federally insured program allows you to purchase Certificates of Deposit (CD) guaranteed to match the rate of college cost inflation. By determining how much college expenses will cost you, the bank will identify how much to deposit every year based on current tuition costs. Since interest rates on the *CollegeSure® CD* are designed to address tuition increases, you are assured of having the funds needed by the time your child starts college. You can enroll in an automatic deposit program with a minimum investment of $500 to open a *CollegeSure CD* account. For additional information on this option call 800-888-2723 or go to the Web site at www.college savings.com.

Custodial Accounts

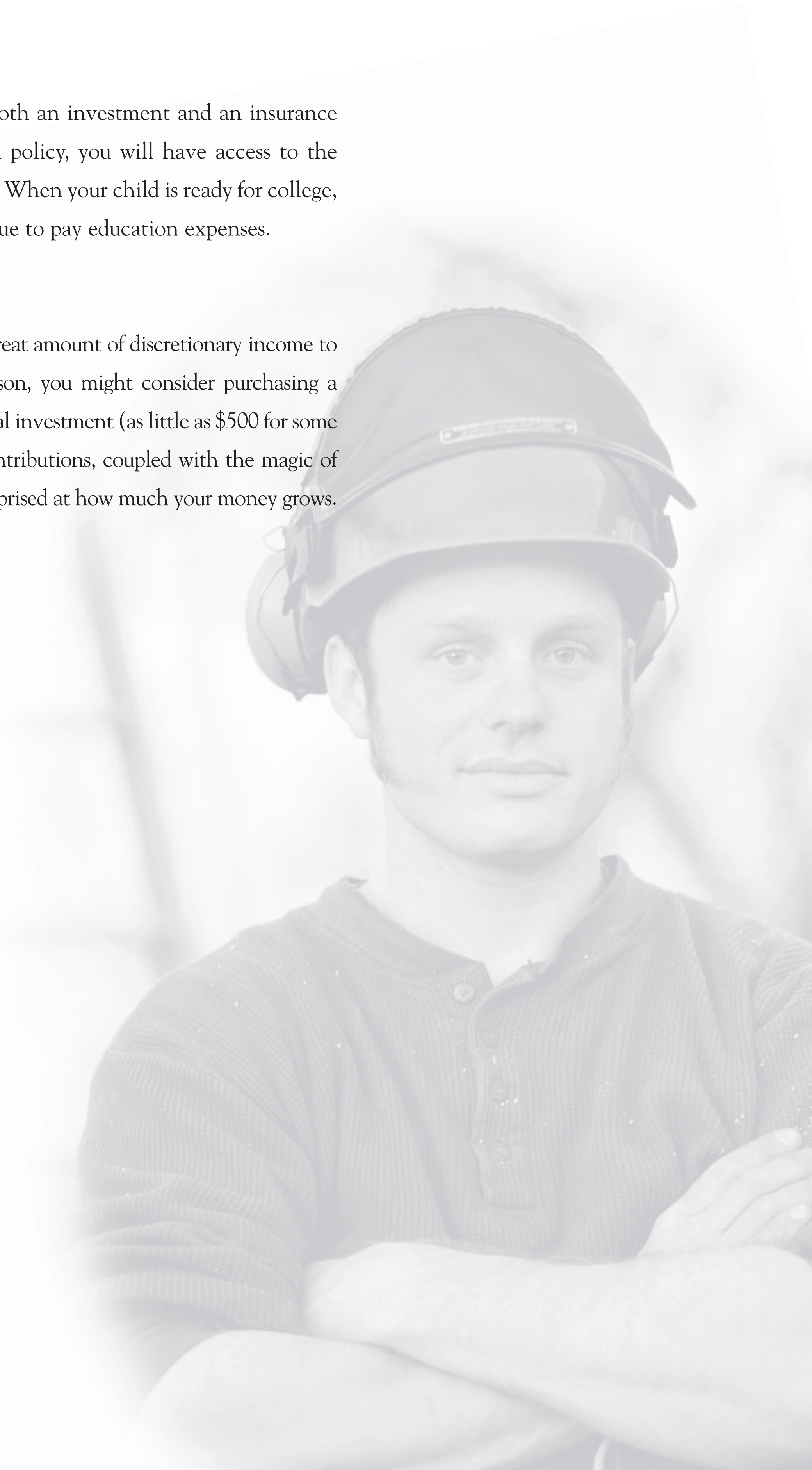
Parents have the option of setting up custodial accounts for each child. There are two major types of custodial accounts: the Uniform Gifts to Minors Act and the Uniform Transfers to Minors Act. These accounts allow custodians certain income-tax advantages. Up until the age of 14, the first $800* is tax-free; the next $800 is taxed at your child's income tax rate; and anything above this is correlated to your tax bracket. Keep in mind that when a child becomes a legal adult in your state, he/she has complete control over the account.

**This amount will be adjusted annually with inflation.*

Qualified State Tuition Programs (Section 529 Plans)

Many states have implemented qualified state tuition programs for college tuition and expenses. These programs fall into one of two general categories—prepaid tuition plans or savings plans. Generally, with a prepaid tuition plan, you make a series of payments or a lump-sum payment and designate your child as the beneficiary. By paying in advance, you can "lock-in" current tuition costs. When the funds are withdrawn to pay for qualified higher education expenses, the earnings are tax free. There are some drawbacks to state prepaid tuition plans. If your child doesn't go to one of the state schools in the program, many plans will return only the principal with a small amount of interest, typically three to five percent. And if you contribute to a state prepaid tuition plan, you may also contribute to an education IRA in the same year without penalty. For additional information on this option go to www.college savings.org.

The new state-sponsored college savings plans allow parent contributions to grow in value over time, keeping up with or surpassing the escalating price of a college education. The money in these college savings plans is held in the parents' name and currently does not count as heavily against the family in the financial aid formula as funds held in custodial accounts or state prepaid tuition plans. It is important to note that these financial aid formulas and variables do change over time. If your child does not attend college, the money can be transferred to another child in the family without penalty. It should be noted that once inside these plans, the money is invested at the discretion of the plan sponsors, with no input from you. For a complete listing of these state plans, call the College Savings Plan Network at 877-277-6496, or check out their Web site at www.college savings.org.



Life Insurance

Many life insurance policies offer both an investment and an insurance component. If you purchase such a policy, you will have access to the policy's cash value as it accumulates. When your child is ready for college, you can borrow against the cash value to pay education expenses.

Mutual Funds

Many Baby Boomers do not have a great amount of discretionary income to save for college tuition. For this reason, you might consider purchasing a mutual fund that requires a small initial investment (as little as $500 for some funds). By making small monthly contributions, coupled with the magic of compounding interest, you will be surprised at how much your money grows.

"Our adult son graduated from college over two years ago and is still living at the house. I know that old saying 'You are a parent for life,' but we feel that at some point he needs to be responsible for his own finances. We are at a point in our life where we need to be focusing on us." —Darien S. (51 years old)

Step no. 2 Preparing Your Adult Child for the Financial World

Millions of Baby Boomers are facing the reality that providing on-going financial support to an adult child is jeopardizing their own savings needs. Unfortunately, schools and colleges have done a poor job of helping students make the transition from college life to being an independent adult. Parents can nurture financial independence in their adult children by following some simple tips.

> *"Maybe it's called 'tough financial love,' but we needed to set some financial boundaries with our son Ron. Prior to his graduation, we sat down with him and laid out the reality that we needed to save more money for our retirement. We were pretty specific about what we could and couldn't do financially to get him going in life." —Sarah N. (54 years old)*

A Primer for Nurturing Financially Strong Adult Children

- **Insurance.** Whether your child is just graduating from college or moving out of the house, you need to discuss how he or she will pay for health and automobile insurance. New college graduates should obtain health insurance coverage until their benefits are established with a new employer. Once your adult child has his or her own auto insurance, your premiums may drop substantially.

- **Legal Matters.** Leasing an apartment, applying for credit, or purchasing a car are "windows of opportunity" for helping your adult child gain financial independence. In some instances, adult children will ask for you to co-sign for a loan to buy a car. You might consider having your child purchase a used car or take in roommates as a way of saving money instead of making you legally and financially responsible.

- **Student Loans.** Graduates of public and private colleges owe an average of between $12,000 to $18,000. Generally, payments on these loans start six months after leaving school. Discuss with your child, in the junior year, how he/she is going to address these loans. You might recommend that any extra funds accumulated be put toward paying down the loan(s) that have the highest interest rate or the one that starts accumulating interest the earliest.

- **Investing and Saving.** You can do a great service for your adult child by recommending that he/she start saving money as soon as possible. Even though young adults may not have a lot of discretionary income, participating in a 401(k) plan or establishing a Roth IRA is a great start.

"My husband and I made a great income, but it was never enough to satisfy our need for 'things.' We wanted the best vacations, the best clothes for the kids, and the latest computers. We never thought twice about filling out credit card applications to pay for everything, thinking that the introductory rate was such a 'bargain.' Well, three years ago we amassed $47,000 in credit card debt with over 16 cards. We couldn't make the minimum card payments. I was mortified when we had to ask my husband's family for a loan. We had to sit down with the kids and tell them we couldn't afford summer camp that year. It took us four years to get out of that mess." —Terry M. (47 years old)

If Your Credit Cards Are Out of Control:

- *Pay more than the minimum payment.*
- *Send in your payment as soon as you get your bill. The sooner creditors receive your payment, the less you will pay in interest.*
- *Pay off the cards with the highest interest rates first.*
- *When you pay the final bill on one card, add the money to your payment on another card, thereby paying off debt more quickly.*
- *If possible, consolidate all your credit card balances on one low-interest card.*
- *Consider using your savings to pay off your high-rate credit card balances. This can be a good investment if the money in your savings account is earning a much lower interest rate than the rate you're being charged on your credit card.*

Step no. 3 CONTROLLING CREDIT CARD DEBT

If you are like millions of other Baby Boomers, you have credit card debt. According to statistics from Myvesta, in 2003, the average baby boomer had credit card debt of about $2,000.

CREDIT CARD AND DEBT WARNING SIGNS

Answer "agree" or "disagree" to the following statements:

	Agree	Disagree
1. I pay the balance due on my credit cards each month when the statement comes.	☐	☐
2. I understand the interest rate(s) being charged on each of my credit cards.	☐	☐
3. I don't struggle to pay off the minimum amount due on my credit card(s).	☐	☐

	Agree	Disagree
4. I don't regularly switch my credit card balances to another bank offering a lower introductory rate as a way to delay or lower the minimum payments due.	☐	☐
5. I don't regularly utilize credit card checks to pay for routine living expenses.	☐	☐
6. When I do use a credit card check, I understand the extra bank fees charged.	☐	☐
7. I don't feel compelled to apply for every credit card offering that comes in the mail.	☐	☐
8. I have not found myself being routinely called by credit card companies for late or delinquent payments.	☐	☐
9. I have not needed to take out a second mortgage on my home or sell possessions to address credit card expenses.	☐	☐
10. I don't have a lot of anxiety over the debt incurred over the last three years.	☐	☐

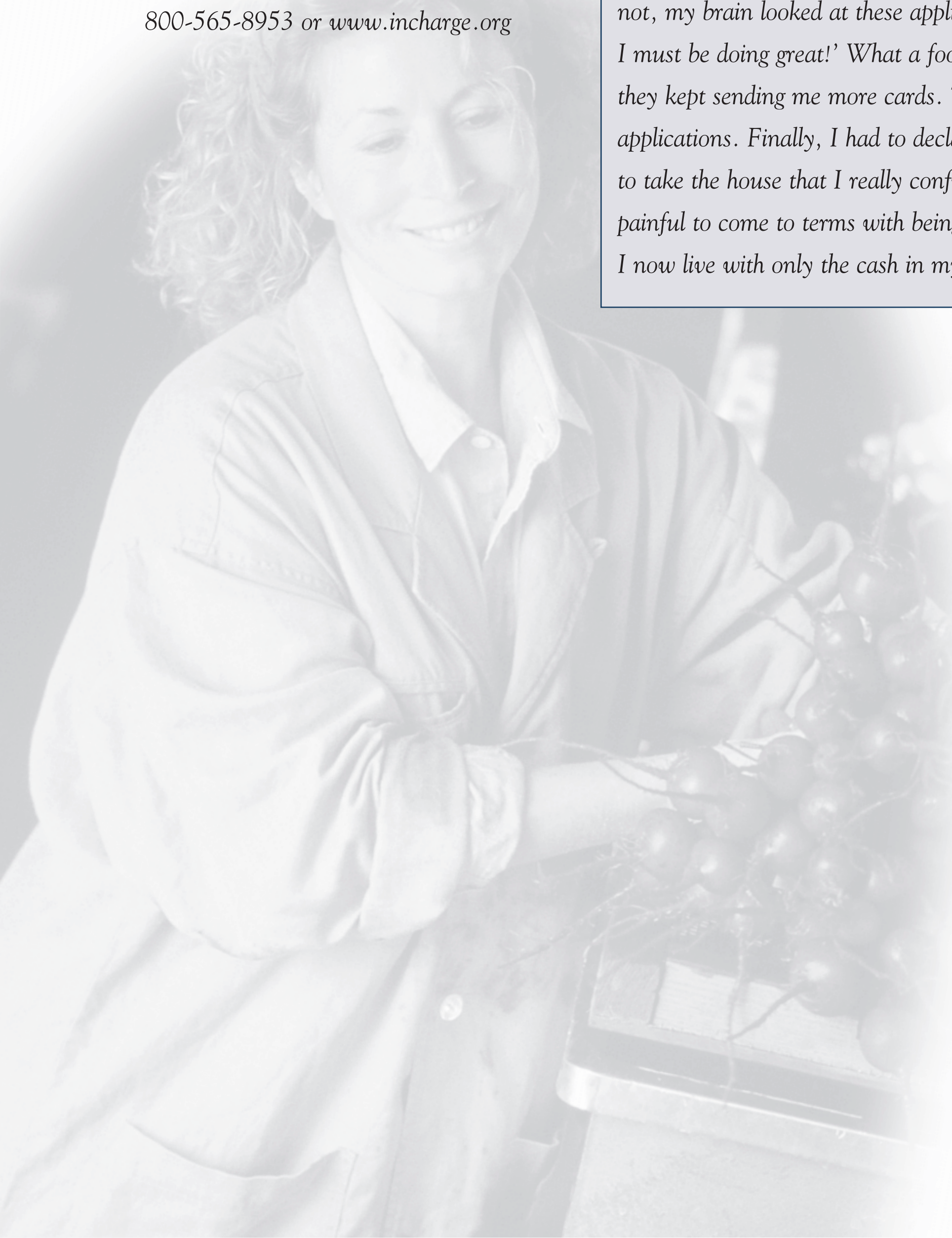
If you found yourself with more than two or three "disagree" statements, it is time to seriously evaluate your credit card and debt situation.

Here are some low-cost or free confidential counseling services in your area:

National Foundation for Credit Counseling
800-388-2227 or www.nfcc.org, or www.debtadvice.org

Debt Counselors of America
800-680-3328 or www.myvesta.org

InCharge® Debt Solutions
800-565-8953 or www.incharge.org



Debt Management Services

If you find yourself in a credit card or debt crisis, help is available. Counseling is usually free or available at a relatively low cost. Keep in mind that if you enter into a debt repayment program (in which the service distributes a monthly amount to each of your creditors), the bank or credit card company may add that favorable action to your credit report!

Consider the experience of this Baby Boomer:

"You might say I was a 'pro' at denial. Although I was having difficulty paying off my credit cards, the offers kept coming in the mail for more cards. Believe it or not, my brain looked at these applications and said 'if banks are sending these out, I must be doing great!' What a fool I was! Despite my delinquent payments, they kept sending me more cards. To this day I wonder if anyone reads these applications. Finally, I had to declare bankruptcy. It was not until they threatened to take the house that I really confronted my problem. Although it was very painful to come to terms with being irresponsible with credit, I am really glad that I now live with only the cash in my wallet." —Justin B. (39 years old)

"Last month I was laid off from my job. I knew that I could eventually get another job, but the anxiety came from thinking that I had no health insurance coverage. The lesson in all this is that we must know our rights when it comes to maintaining our health insurance." —Thomas B. (48 years old)

Step no. 4 Patient Know Thy Rights

Having to find another job may be tension-filled, but worrying about health insurance can cause even greater anxiety. Your health-care options also may be affected when an employer changes health insurance providers. Understanding your health-care rights will help you prepare for these transitions.

Your Health-Care Bill of Rights

– **Employers offering health insurance are required by law to keep workers abreast of the latest changes in health-care coverage.** Make sure to review the summary plan description for your health care plan to ascertain the coverage options available through your employer.

– **Under a new federal law, as long as you have no break in health-care coverage for longer than 62 days, the waiting period, commonly required before a new employer's health insurance plan will cover a pre-existing condition, can be reduced or eliminated.** If your new employer's plan does not cover pre-existing conditions for the first year of employment, the amount of time your condition was covered

by your former employer counts against the waiting period. If it was at least a year, coverage under the new plan begins immediately.

– **Based on a law commonly referred to as COBRA, group health plans with 20 or more employees are required to offer continued coverage for you and your dependents for 18 months after you leave your job.** If you wish to continue your group coverage under this option, you must notify your employer within 60 days.

– **If COBRA doesn't apply, consider purchasing an interim or short-term medical policy.** These policies provide medical insurance for people with a short-term need for coverage (typically written for two to six months and renewable once).

– **Consider creating a Medical Savings Account (MSA) or Health Savings Account (HSA) to cover your health care expenses.** The funds you put into these accounts may be tax deductible, and contributions by your employer may not be included in your income. In order to qualify for an MSA, or HSA, you must be covered under a "high deductible" health insurance plan.

– **Employers cannot discriminate against workers because of chronic conditions.** If you have a longstanding disability, you cannot be charged a higher premium because of your condition.

– **For further information on your health care rights and applicable laws.** Visit the Department of Labor Web site at: www.dol.gov; the Medicare Rights Center: www.medicarerights.org; and HealthNet: www.healthinsure.com.

"I am in my mid-40s and my parents are in their 70s. My mother has been pushing for the last year to move closer to my sister and me because of my father's failing health. To be honest, we have mixed feelings. It would be easier looking in on them to provide help when it is needed, but we don't know what their expectations will be. We don't even know what type of housing situation would be the best for them."
—Maureen D. (46 years old)

Step no. 5 Relocating An Older Parent

As Baby Boomers grow older, many face the issue of relocating their parent(s). This question often comes up after a health crisis has occurred and one or both parents need assistance. Many Boomers will opt to have their parent(s) move closer. This decision has both *emotional* and *financial* implications. If you are trying to make a decision about relocating a parent, it is best done before a crisis occurs. Familiarity with the options, their costs, and the resources available will help with the transition.

Retirement Community Options

– **Independent living.** These types of communities usually are for older adults who desire an active lifestyle but don't want to deal with the maintenance of owning a home. Such settings include apartments or condominiums that are either bought or rented. Usually, independent living includes some limited medical and social services on-site.

– **Life-care communities.** This option provides a lifelong range of housing options, from individual apartments and condominiums to full nursing-home care. Residents are required to review and sign a contract that

stipulates the services provided. Usually, individuals pay a lump-sum entrance fee and then make monthly maintenance payments. Entry fees can range from $20,000 to $400,000. Monthly fees can range from $400 to $2,500. This type of setting usually offers a fully contained community that includes a dining hall, recreational facilities, health care on-site, etc.

- **Assisted living.** This kind of housing accommodation is for older adults who are partially independent but need assistance in certain areas of care. Individuals are usually provided a room within a main complex. Nurses and attendants are on-site 24 hours a day to provide care as needed. The Metlife Market Survey of Assisted Living Costs, conducted in October 2003, showed that the average rate for an individual residing in an assisted living facility is $2,379 a month, or $28,548 annually.

- **Nursing homes.** There are many different kinds and levels of care provided for individuals needing full-time assistance. Also, there are specialized nursing facilities for patients who have Alzheimer's disease or some other brain impairment. According to a May 2003 survey conducted by Evans Research of San Francisco, the average annual cost of nursing home care in the U.S. is about $57,700. Rates vary widely by geographic region.

- **Additional resources.** Consult your Area Agency on Aging for additional housing options, and check out these Web sites: www.aahsa.org/public/consumer.htm and www.seniorlink.com.

"Phil started talking about early retirement when he was in his early 40s. I did not give much mind to his talking because I thought it was years away. Two years ago his company offered him an early retirement package that he 'couldn't refuse,' and he jumped on it. In the meantime, I had started back to work after our last child left for college. I will never forget coming home at night and dealing with a sullen face. Phil wanted me to join him in his idea of utopia…doing nothing. I tried to explain to him that I enjoyed my work and didn't want to retire with him. It seems like we are on different planets!" —Jessica M. (56 years old)

Step no. 6 Partners Must Plan Together

Partners may be on different wave lengths when it comes to retirement aspirations. It is critical that long before retirement—whatever that means—partners communicate how they envision their middle and later years. Many studies have documented that couples often stumble during the retirement transition due to different work and leisure expectations.

Marriage, Career, and Retirement Questionnaire

Answer "yes" or "no" to the following:	Yes	No
1. Have you and your spouse talked about individual needs, as well as your needs as a couple, to determine your schedules for retirement?	☐	☐
2. Have you determined when you want to retire?	☐	☐

Midlife Couple Portraits

Portrait One

"We met in France during college break. We got married after college, settled down, and had two children. During our marriage we always dreamed of returning to France and living there for a year. When Ben and I turned 50, we decided to quit our jobs and follow our dream. We loved it so much that we decided to make a career of hosting tour groups throughout France. When we are not hosting tours, we use our spare time to travel to different regions of the world on the money we earn as tour guides. We plan to live like this throughout our later years until someone tells us otherwise. If there is any advice we could give to other couples, it would be this: follow your dreams into later life as a couple and believe that you can constantly renew your relationship." [as told by Alice] —Alice & Benjamin G. (ages 56 and 58)

Portrait Two

"I will never forget the day I came home tired and exhausted from my job in the city, and Cynthia stared at me and said, 'How long are we going to live our lives like this?' Right there and then we made a pact to change our lifestyle and prepared for a solid two years to live like 'wandering hoboes.' Last year we sold our house and decided to buy a mobile home and travel the country. Of course, we live on a tight budget and must watch our expenses, but this is how we want to live our life. We pay all our bills from the laptop computer, have our mail forwarded to us every month at a specific stop, and travel with a group of aging Woodstockers like ourselves. Our children think we're crazy, but we wouldn't trade our lifestyle for all the money in the world. Sure this isn't for everybody, but isn't life all about following your heart? I guess Cindy and I never lost the values of the 60s that said 'only you can make yourself happy.' We are writing a book about our travels and the people we have met on the road." [as told by Leonard] —Cynthia & Leonard W. (ages 51 & 52)

	Yes	No
3. If your spouse decides to retire and you want to continue working, have the two of you discussed it and decided what changes there will be in handling household tasks?	☐	☐
4. Have you and your spouse discussed how you are to spend your earnings if he/she retires?	☐	☐
5. If one of you continues to work, have you talked about how you will spend leisure and other time together?	☐	☐
6. Have you decided how you'll make time for your own needs and interests?	☐	☐
7. Will you feel guilty during the working day when he/she is home alone?	☐	☐

8. What problems do you think might develop if you continue to work after your spouse retires?______________________________________

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9. What are the advantages, and what do you look forward to, if you keep working and your spouse doesn't?

10. What might be the disadvantages, and what do you fear, if you keep working?

11. Additional issues:

What We Can Learn From the Two Couples Described Here.

- *By drawing on past experiences, couples can develop and enhance lifestyles that meet each of their needs.*
- *Midlife and later adulthood can be as orthodox or unorthodox as you make it.*
- *Couples who listen to their "inner voice" often lead happier lives as they grow older.*
- *Transition and change can act as a positive dynamic, regardless of age.*

What are your thoughts on both couples?

"I really can't get out of my mind the idea of being able to do what I want, when I want to do it. The idea of early retirement is all I can think about in terms of a major goal." —Stan D. (52 years old)

"Let's be real here. Many of us Baby Boomers think about early retirement as if it is going to happen tomorrow. Speaking for myself, I don't know if this is even within the realm of possibility. Sure, it's a wonderful idea, but how many of us have done our homework to figure out if it is possible and what we need to be thinking about?" —Susan P. (50 years old)

Step no. 7 What to Consider Before Early Retirement

It is completely normal to envision the benefits of early retirement. Retiring early has become the norm rather than the exception among individuals who work for companies offering retirement pension plans. Before you leap into life without work, consider the following:

– **Income.** Some experts estimate you'll need at least 70 percent to 80 percent of your pre-retirement income (adjusted for inflation) to maintain your present standard of living, if that is your goal. Where will this money come from? Retirement accounts, company pensions, personal savings, and Social Security are all possibilities. Early withdrawals from 401(k) plans, Individual Retirement Accounts, and other retirement plans may result in a penalty, so make sure to take that into consideration in your planning.

– **Social Security and Pension Benefits.** Although you're entitled to reduced Social Security benefits at age 62, retirement prior to the minimum age for claiming full benefits (age 65 plus, depending on your date of birth) will mean a lifetime reduction in the amount you

receive. If your life expectancy is long, this will make a difference over the long term. In addition, if your company has a traditional pension plan, you'll probably find your benefits reduced if you retire before age 65.

– **Health Insurance.** You may have to forgo retiree health insurance provided by many companies. You're entitled to 18 months of coverage under COBRA, but you'll have to pay the premiums. Eligibility for Medicare does not begin until age 65, and you will need to consider purchasing a Medicare supplemental policy.

– **Expenses.** If you have children in college or anticipate another major expense, will early retirement affect your ability to pay?

– **Stock Options.** Retiring early may force you to exercise stock options sooner than you planned.

– **Part-Time Work.** Consider this option if you retire before some of your benefits, such as Social Security or a pension, are available to you.

– **Investments.** Although you may be drawing on your investments for income, you'll want to invest some of your assets so they grow faster than the rate of inflation.

Retiring early is a major life decision! Be sure you have appropriately planned for it. If you're thinking of taking this step, talk to your accountant and other financial advisors first.

"Believe it or not, my wife and I started to talk about where we wanted to live in our later years when we were in our early 40s. We had always taken the kids down to Myrtle Beach in the summer and just loved the atmosphere, climate, and cost of living. Before I selected the early retirement option, we went down there one more time and lived for six months to see if we liked it full-time. That was the smartest thing we ever did—we loved it, and bought a condominium." —Jeffrey B. (57 years old)

"I look back at our move and realize what a mistake it was for us. We were following what thousands of other New York City people do after retirement: go to Florida. Although the sun is always shining, and the living costs are low, we miss our family and friends. I'm bored silly, and we are seriously thinking about moving back!"
—Margaret G. (59 years old)

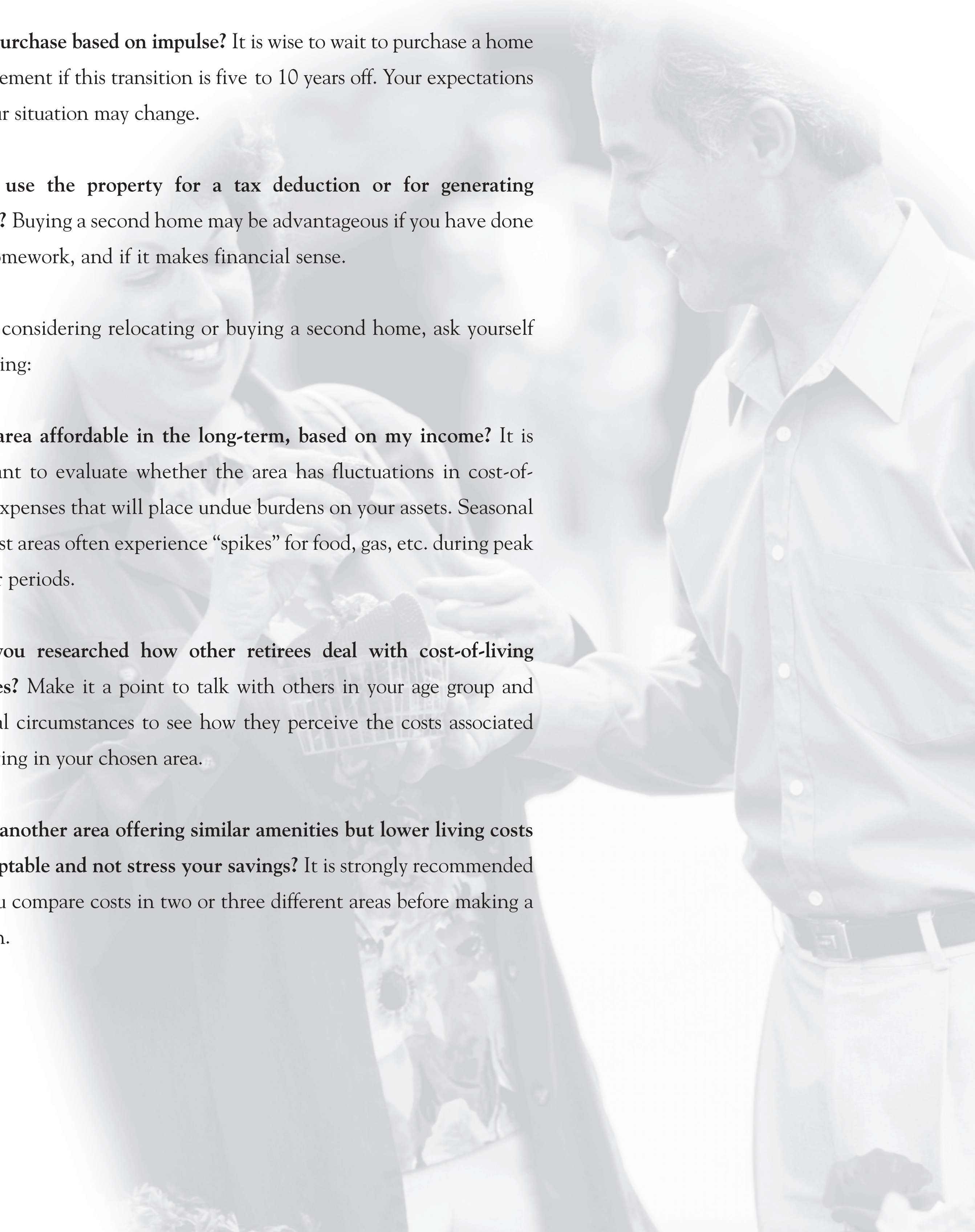
Step no. 8 Prior To Buying or Relocating

The allure of moving to a tropical paradise or buying a second home for retirement is in the minds of millions of Baby Boomers. A recent survey found that 63 percent of Baby Boomers living on Long Island are contemplating permanently relocating after they retire. For some, the decision has worked out just as their dreams had envisioned; for others, it has been a major disappointment. If you are considering buying a second home prior to retirement, or contemplating moving to another region after you retire, ask yourself the following:

– **Do I want to live in this area year round?** Does it have the amenities, access to health care, and lifestyle that suit my needs?

– **How will I handle living away from my friends or family?** Having a support system can be a critical need for some individuals.

– **If you want to maintain a foothold in the labor force, is the area suitable for a job?** Resort areas may be very appealing to the "eye," but are not conducive to finding a part-time or full-time job; or the area may not offer the supports needed to start a small home-based business.



If you are considering purchasing a second home to live in later, ask yourself the following:

– **Is the purchase based on impulse?** It is wise to wait to purchase a home for retirement if this transition is five to 10 years off. Your expectations and your situation may change.

– **Will I use the property for a tax deduction or for generating income?** Buying a second home may be advantageous if you have done your homework, and if it makes financial sense.

If you are considering relocating or buying a second home, ask yourself the following:

– **Is the area affordable in the long-term, based on my income?** It is important to evaluate whether the area has fluctuations in cost-of-living expenses that will place undue burdens on your assets. Seasonal or tourist areas often experience "spikes" for food, gas, etc. during peak summer periods.

– **Have you researched how other retirees deal with cost-of-living expenses?** Make it a point to talk with others in your age group and financial circumstances to see how they perceive the costs associated with living in your chosen area.

– **Would another area offering similar amenities but lower living costs be acceptable and not stress your savings?** It is strongly recommended that you compare costs in two or three different areas before making a decision.

"I knew my father had some money and other assets stashed away. Neither I nor my two brothers ever really talked to him about his wishes or how the estate was to be split up. When he died, his will indicated that the assets were to be split up among the children. That hardly prepared us for the bickering that occurred over who got what in the house. To make matters worse, I was completely unprepared to deal with the portion I inherited." —Jane D. (54 years old)

Inheriting a 401(k)

Most 401(k) plans provide several withdrawal options to employees who reach age 59½, or who retire. The beneficiary of someone who had a 401(k) retirement plan and has passed away also may have some options for receiving the funds accumulated. Because inherited 401(k) money is subject to income taxes (as well as possible estate taxes), it's critical for a beneficiary to carefully consider all alternatives. These may include:

- *Taking the money immediately in a lump sum and paying income taxes in the year received.*
- *Rolling over the money to an Individual Retirement Account, thus avoiding immediate income taxes.*
- *Taking withdrawals from the 401(k) over several years, which spreads income taxes out over the distribution period.*

Check with a tax expert about your best option.

Step no. 9 Planning for an Inheritance

Baby Boomers are expected to inherit more than $165 billion of wealth over the next 20 years. Unfortunately, few of us have spent any time discussing estate transfer with our parent(s), siblings, or a financial professional. Here are some tips that might be of help:

- **Talk with your parent(s) about their estate.** To avoid the perception that all you are concerned about is being a "money grubber," consider using a financial planner to facilitate these hard-to-initiate conversations between parent(s) and adult children.

- **Discuss the disbursement of an estate with your siblings.**

- **Prepare for the financial realities of taking ownership of wealth.** Review your emotional attachment to assets that were once owned by your relative and develop a positive perspective on handling such a transfer.

"I never really thought about how my children would be taken care of, or by whom, in case of my death. I guess it was something I never really wanted to confront. I started doing something when it hit me that planning was really the greatest act of love I could provide to my children." —Jennifer L. (46 years old)

Step no. 10 The Importance of Estate Planning

Many individuals are under the impression that estate planning is only for the wealthy. In reality, estate planning is a smart move for all Baby Boomers, regardless of their means. In simplest terms, estate planning is a plan to protect what you own so your beneficiaries receive the maximum benefits with a minimum tax loss. Ideally, estate planning should be done with a lawyer and a financial planner who specialize in this area.

Actions to Consider

Wills

The first step in estate planning is to establish a will. A will is the only way you can be assured that your property will be dispersed according to your wishes. Without one, your state's estate laws will determine to whom your assets will be distributed and the amount each person will receive.

Gifting

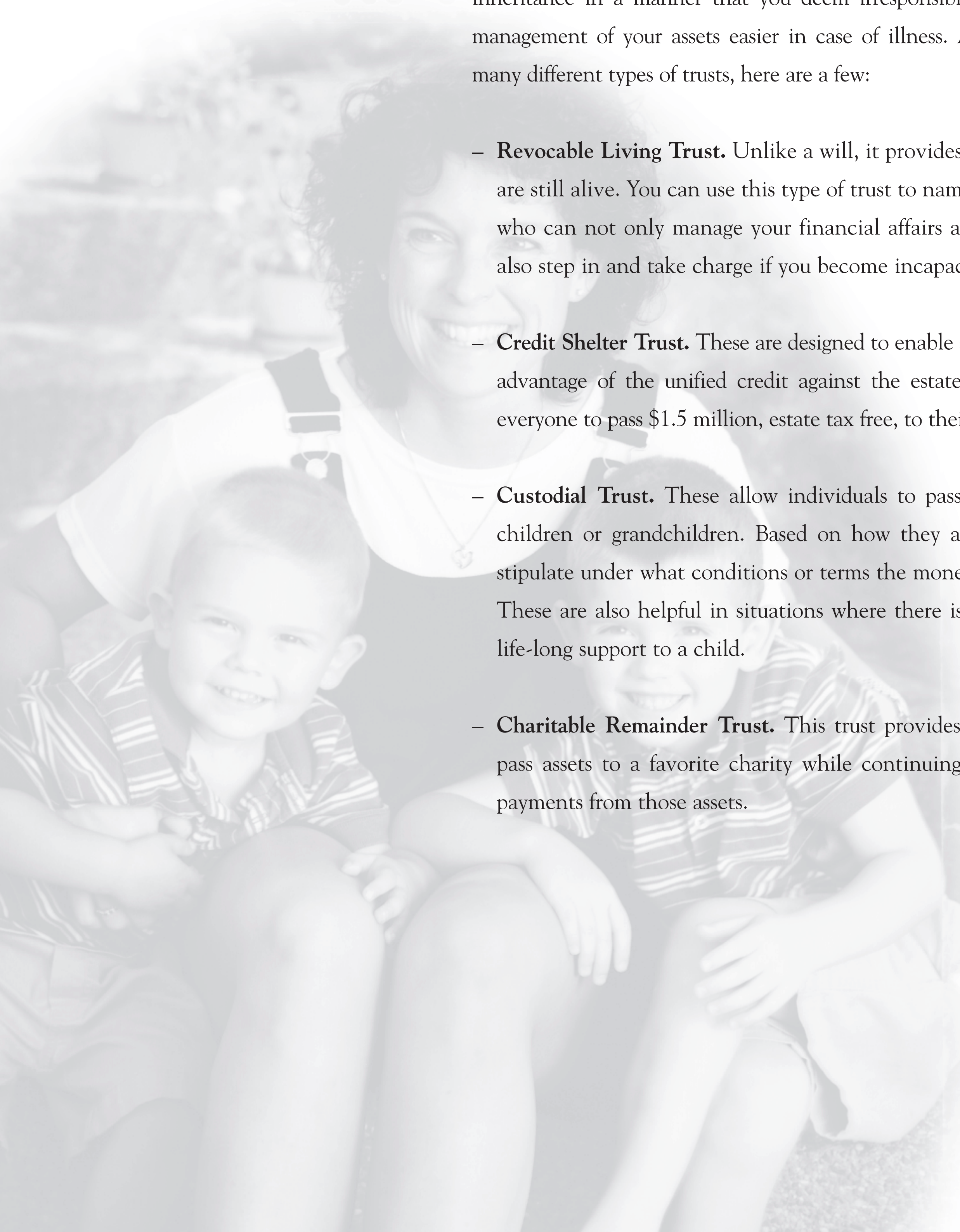
If you want to reduce your estate by a small amount (without going through the paperwork of a trust) consider gifting. You can give up to $11,000 a year currently ($22,000 for a married couple) to an unlimited

Income Taxes and Estate Planning

Transferring appreciated assets in a way that favors family or friends instead of the taxman may take some planning. Here are a two tax rules you should know about.

Gains usually vanish at death. *For example, you buy stock for $1,000 and sell it for $500,000. Your taxable gain is $499,000. What if your son inherits the stock from you, and it's worth $500,000 when you die? He can sell it for as much as $500,000 and report no gain because his basis in the stock is stepped up to its estate value.*

Gains don't disappear when assets are given away. *If you give your stock to your son today, his basis is the same as yours: $1,000. A sale for $500,000 would again result in a $499,000 gain—this time reportable by your son rather by you. There are exceptions. Make sure to weigh the tax consequences when considering a bequest versus a gift.*



number of people without triggering gift or estate taxes.

Trusts

A trust can address many purposes, including: avoiding the probate process, protecting assets from creditors, keeping children from spending an inheritance in a manner that you deem irresponsible, and making the management of your assets easier in case of illness. Although there are many different types of trusts, here are a few:

– **Revocable Living Trust.** Unlike a will, it provides benefits while you are still alive. You can use this type of trust to name a *successor trustee* who can not only manage your financial affairs after death, but can also step in and take charge if you become incapacitated.

– **Credit Shelter Trust.** These are designed to enable a couple to take full advantage of the unified credit against the estate tax, which allows everyone to pass $1.5 million, estate tax free, to their heirs (in 2004).

– **Custodial Trust.** These allow individuals to pass assets on to their children or grandchildren. Based on how they are set up, you can stipulate under what conditions or terms the money is to be received. These are also helpful in situations where there is a need to provide life-long support to a child.

– **Charitable Remainder Trust.** This trust provides an opportunity to pass assets to a favorite charity while continuing to receive regular payments from those assets.

"I was only 52 years old when I lost my husband. To say that I was unprepared for this reality is an understatement. I realize now that I should have been more involved in understanding all our finances…it would have made things easier."
—Joan B. (54 years old)

Step no. 11 Preparing for Singleness

Planning for the possibility of being single is one of the most important transition issues to address, particularly for women. The average age of widowhood is 63; and midlife divorce has tripled in the last decade. Nobody wants to become widowed or divorced, but we are better off if we plan for the possibility.

Here are some basic steps to take:

- Organize and store important financial papers in a secure location.
- Make sure you understand your Social Security benefits in case of widowhood or divorce.
- Evaluate whether you have enough life insurance coverage.
- Understand how to file life insurance claims.
- Keep an accurate, up-to-date record of all single and joint checking and savings accounts.
- Have emergency funds in checking and savings accounts to cover three months of living expenses.
- Keep records of all investments.
- Know the property laws in your state and how they affect you in case of divorce or widowhood.

"At one point I felt that all material written for Baby Boomers was for those who could be physically active. I am in a wheelchair and my needs are different in terms of planning." —Jason B. (Age 49 years old)

Step no. 12 Using the Internet

Baby Boomers are a diversified group with special needs, issues, family structures, and lifestyles. It is difficult to contemplate what your needs may be in the future, but one thing is for sure—the Internet offers information and resources for all groups and populations. Here is just a sample:

Wiring Into Your Own Needs and Groups

– **www.mainstream-mag.com.** A site for those with disabilities, offering health assistance and information about finances and education.

—**www.blackplanet.com.** Offers financial planning tools for African-American groups.

– **www.gay.com and www.planetout.com.** Contains links on finances for gay and lesbian groups.

– **www.ivillage.com.** Site is dedicated to the needs of women, and contains money, investing, and lifestyle links.

Actions Summary

#1 ☐ Evaluate financial strategies for paying college tuition costs and planning your retirement.

#2 ☐ Address preparing your children for entering the financial world and taking on responsibility.

#3 ☐ Ascertain whether you have taken on too much credit-card debt, and use credit counseling services (if necessary).

#4 ☐ Understand your health-care rights.

#5 ☐ Discuss with your parent(s) their retirement-community options before a crisis occurs.

#6 ☐ Sit down with your spouse (partner) and discuss your retirement dreams and aspirations.

#7 ☐ Consider the pros and cons of early retirement and whether you have the resources to do so.

#8 ☐ Conduct background research on where you want to live in your later years (or if you anticipate purchasing a second home).

#9 ☐ Consult with your siblings, family, and appropriate financial professionals if you anticipate receiving an inheritance.

#10 ☐ Plan to address your estate planning needs and make sure to have executed a will.

Suggested Reading

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