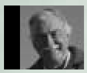
 WHEN SHOULD I START SAVING FOR RETIREMENT?

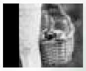
The sooner the better. If you start early enough, setting aside even a small amount each month can accumulate substantial savings in the long run because of the compounding of investment earnings. At age 35, if you began investing $200 a month at 8 percent for 30 years, until age 65, you would accumulate a retirement nest egg of $300,060 (before taxes). If you start 10 years earlier, the same compounded monthly investment would grow to $702,856! For every 10 years that you delay setting aside money for retirement, you will have to save three times as much to reach your nest-egg goal.

Unfortunately, most people put off planning for their retirement until just before retirement. A study conducted by the U.S. Department of Health and Human Services showed that 1 percent of the population retired wealthy, 4 percent were financially secure, 20 percent had to continue to work, and 49 percent relied on Social Security as their main source of income.

 WON’T SOCIAL SECURITY AND MY PENSION BE ENOUGH?

Probably not. Social Security, a pension, and a small savings account used to be enough because people lived only a few years beyond retirement. Now people commonly are retired 25 years or more. Retirement has become a whole new stage of life.

The higher your pre-retirement income, the smaller the role of Social Security and a company pension plan. For people earning $60,000, for example, Social Security makes up only 34 percent of their income.



HOW MUCH MONEY WILL I NEED FOR RETIREMENT?

The traditional rule of thumb says people need 60 to 80 percent of their pre-retirement income to maintain their lifestyle after retirement. But that may not be enough if you plan to travel a lot or you anticipate high medical costs or other above-average expenses.

A CERTIFIED FINANCIAL PLANNER™ professional can assist you with retirement objectives and calculate how much money you'll need to live on each month over your expected retirement lifetime (say to age 90 or even 100), taking into account taxes and inflation. The planner can then determine how much, if any, additional money you'll need to save through personal investments to fund that portion of your monthly income not provided by Social Security and your pension.

WHERE DO I START?

Discuss your retirement goals with a CFP® professional. What kind of retirement do you envision? Do you want to retire early, or will you likely work at least part time beyond age 65, as many are doing? Do you plan to travel around the world or work in the garden? Start your own business? How is your health? Do you plan to move when you retire? What other financial goals do you have besides retirement? The nonfinancial issues can be as important as the financial decisions when it comes to determining your financial strategies.

With your goals in mind, the planner will look at your net worth (your assets plus anything owed to you minus your liabilities), current and projected expenses, and sources of income. The planner will determine the current total value of your assets and estimate the rates of return of your taxable and tax-deferred investments (profit-sharing plans, 401(k) plans, IRAs, Keogh plans, and so on) adjusted for taxes and inflation, to see how much more, if any, you'll need to set aside to meet your retirement goals.

IS THERE A RISK I'LL RUN OUT OF MONEY?

If you don't plan ahead, you may end up living on only Social Security and your company pension plan (and many companies don't have pension plans). The biggest enemy of retirement is inflation. Over time, even modest inflation can silently rob your hard-earned and hard-saved dollars of their value.

Let's say you plan to retire at age 65 on $3,500 a month. Of that, $1,072 comes from Social Security (indexed for inflation), $1,000 from your company pension plan (not indexed for inflation), and the rest from your accumulated savings of $300,000 earning five percent annually in taxable and tax-deferred savings. Sounds okay, doesn't it? But at a mere 3.8 percent annual inflation rate, your personal savings will be drained by age 81.

WHAT CAN I DO TO ENSURE THAT MY RETIREMENT DOLLARS LAST?

There are several options. You can reduce your monthly expenses to free up money to invest, try to increase your investment return, find new sources of income, or use a combination of these options. The key is to make your money work harder.

WHAT INVESTMENTS SHOULD I MAKE?

One of the best investments is your company's tax-deferred retirement programs such as 401(k)s, 403(b)s, and profit-sharing plans. These plans usually allow you to invest the money tax deferred in a variety of investment vehicles. Neither the contribution nor any earnings are taxed until withdrawal, which means the money will grow faster compared with a taxable investment of equal return. Moreover, companies often match employee contributions to these plans—the more you put in (there are limits), the more the company puts in. For the self-employed, Keogh plans, simplified employee pension plans, fixed and variable annuities, and IRAs offer similar tax-deferred benefits.

WHAT ABOUT INVESTMENT RISK?

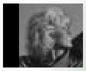
The longer you have until retirement, generally the more risk you can afford to take to achieve a higher return. That means a greater investment in such assets as stocks, which over time have traditionally outperformed more conservative investments such as certificates of deposit. Many CFP® professionals strongly recommend that even when you retire, keep a portion of your money in stocks or other higher-growth investments to offset the ravages of long-term inflation (don't forget, you may be retired 25 years or more).

You also can offset some of this risk by diversifying your investments among several asset categories such as stocks, bonds, real estate, and money markets. A CFP professional can help you put together an investment portfolio that will fit your goals and risk level.

WHAT IF I DON'T HAVE ENOUGH TIME TO SAVE FOR RETIREMENT?

Don't feel alone. Many people don't plan ahead for retirement. But even if you don't start until you near retirement, there are steps you can take with the help of your financial planner. For example, generally you are required to begin withdrawing a minimum amount of funds from your tax-deferred accounts, such as IRAs, at a certain age. But you do have withdrawal options. Your planner can calculate the best option for withdrawing these funds in order to stretch your retirement dollars.

You can find new sources of income, such as a reverse mortgage on your home, or selling a vacation home or other valuable asset to invest the gain. You can delay retirement, reduce your living expenses or work part-time during retirement.



WHEN I RETIRE, SHOULD I TAKE MY PENSION MONEY IN A LUMP SUM OR ROLL IT OVER INTO AN IRA?

Assuming your pension offers you the choice, the decision will depend on your personal circumstances, discipline, comfort level and risk tolerance. Special consideration must also be given to potential tax consequences. Should you pay taxes now or later?

For example, you may want to take the money out as a lump sum and pay taxes on it now if you want the money to start your own business. On the other hand, if you don't need the money immediately, rolling it over into an individual retirement account postpones taxes until you turn 70 1/2, at which point you must begin withdrawing a required minimum amount. The advantage is that the longer you allow the funds to grow tax deferred, the faster they will grow and the more you'll have for your later retirement years. However, if you have a lot of company stock in your retirement plan, rolling it into an IRA is not always the best strategy.

SHOULD I TAKE EARLY RETIREMENT?

This option is being offered to more and more Americans as companies reduce their work forces. In some cases, it is not even an option...it is mandatory. The decision whether to take early retirement depends on several factors:

- **Is the offer a good one?** Does it extend health benefits (and will the company be able to follow through on its promises)? Extra years of service (meaning a larger pension)? Good severance pay? Outplacement services? A choice of an annuity or a lump sum?
- **Are some of the points negotiable?** Carefully evaluate all options with your planner before accepting the offer.
- **Do you have sufficient other resources on which to retire?** Remember, retiring at age 55, for example, means you might have to fund your retirement for at least 30 to 40 years. You may not be able to afford to do that on your current resources.
- **Do you plan to work part time or start your own business?**
- **Are you mentally and emotionally prepared to retire early?** How will you pay for rising health care costs? This is one of the biggest fears facing retirees. You may want to consider the purchase of long-term-care insurance to pay for potential nursing home care, assisted living, or at least be certain you have the resources to cover a stay (most people don't stay longer than three to four years).

You may need Medigap insurance to cover expenses not covered by Medicare.

Another important step is to draw up a living will and a medical power of attorney. These documents will provide guidance to others as to what life-sustaining medical treatment you wish or don't wish to have should you become terminally ill or incapacitated by injury.

WHAT ESTATE PLANNING ISSUES SHOULD I BE CONCERNED ABOUT?

- Draw up a will if you don't have one (two-thirds of Americans don't), or update it if necessary.
- Determine the net worth of your estate, and how the assets of your estate are owned (joint tenancy is not always the best form of ownership).
- Draw up a durable power of attorney.
- Determine with the help of your CFP® professional whether you need to be concerned about potential estate taxes (your first concern is to be sure you have enough money for retirement). If so, taxes are a potential problem. There are, however, many strategies for reducing them.
- Ensure that you have sufficient liquid assets to pay any estate taxes due.
- Minimize the emotional as well as the financial burden on your estate's beneficiaries through careful planning.

HOW IS A CFP® PROFESSIONAL QUALIFIED TO HELP ME?

Not everyone who calls themselves a financial planner is a CERTIFIED FINANCIAL PLANNER™ professional. To obtain the CFP certification, a person must study and demonstrate competency in six areas vital to comprehensive financial planning, including insurance, retirement, investments, and estate planning by successfully completing the CFP™ Certification Examination. The emphasis of the CFP educational program is the interrelationship of the financial areas and the need for an objective analysis of a client's circumstances and goals. The CFP professional must also meet educational, work experience, and ethical standards to maintain the right to use the CFP marks.