

Taking Control of Your
Financial Health

Retirement & Estate Planning



Institute of Gerontology



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ARE YOU READY FOR RETIREMENT?

The seven questions you should ask yourself for retirement planning:

1. What does your ideal retirement lifestyle look like?
2. How much will this lifestyle cost?
3. How will you fund retirement?
4. What is your plan should your resources fall short of your costs?
5. Which retirement accounts will you draw from first?
6. When will you take Social Security?
7. How will you pay for healthcare?

YOUR RETIREMENT LIFESTYLE

Thinking about what type of lifestyle you would like to lead in your retirement is helpful in understanding what your retirement expenses will be. What will your lifestyle be like in retirement? Beside each item listed below, describe what you really want in retirement.

1. Your home:

2. Transportation:

3. Food:

4. Clothing and personal care:

5. Health and health care:

6. Entertainment:

7. Hobbies:

8. Travel:

EXPENSES UPS AND DOWNS

Most people desire a lifestyle during retirement similar to the one they had before retiring. Many times expenses are roughly the same in retirement. However, some will find themselves spending less money in some areas, while spending more in others. These patterns may vary from person to person.

Expenses that may decrease

- Work related costs: commuting, parking, lunch, etc.
- Income taxes
- Home maintenance or housing related expenses

Expenses that may increase

- Recreational and social activities
- Travel
- Health insurance
- Health care and prescriptions

The worksheet below is a good tool in estimating how your expenses in retirement may change from what they are currently. You may want to ask yourself the following questions while completing the worksheet:

- How many years are remaining on your mortgage?
- Do you plan on moving or downsizing your primary residence?
- How will your health insurance premiums change once you retire?
- Do you have all the insurance you need, or should you budget for additional premiums (e.g., long-term care insurance)?
- Will you spend more on travel or hobbies once you have more time to devote to them?

PROJECTING RETIREMENT EXPENSES

Expenses	Current Amounts	Amounts During Retirement		
		Early	Mid	Late
Housing Expenses				
Home Maintenance				
Telephone				
Utilities				
Transportation				
Auto Insurance				
Health Insurance				
Life Insurance				
Medication				
Food				
Clothing				
Entertainment				
Travel				
Transportation				
Hobbies				
Savings				
Other:				
Other:				
Other:				
Other:				
Other:				

THE THREE-LEGGED STOOL

This term refers to the three income areas believed to be needed to maintain a financially secure retirement.

The Three Legs:

- Social Security
- Employer Sponsored Programs
- Personal Savings and Investments

Social Security

The Social Security program was developed in 1935 as part of Franklin D. Roosevelt's New Deal. The program's benefits include retirement income, disability income, Medicare and Medicaid, and death and survivor benefits.

- Average retired worker monthly benefit in 2015: \$1328
- Social Security on average replaces about 40% of retirement income
- You can start claiming Social Security at 62. However, there is a benefit reduction for those who file Social Security before full retirement age. Your benefit is reduced by one half of one percent for each month you start claiming benefits before your full retirement age.
- If you do not start receiving benefits at full retirement age, you will automatically receive an increase in your benefit amount each month until you start taking benefits or reach age 70.
- Working while drawing Social Security - You can work and still draw Social Security. If you are at full retirement age, your income will not affect your benefit amount. If you have not yet reached full retirement age, your benefits will be reduced by \$1.00 for every \$2.00 you earn.

Full Retirement Age (FRA) chart for Social Security

Year of Birth	Full Retirement
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 or later	67

Keeping Track of Your Social Security Benefit

Social Security Feature	Self	Spouse
My Full Retirement Age (FRA)	67	67
My estimated Social Security benefit at age 62	\$956	\$771
My estimated Social Security benefit at FRA	\$1463	\$1186
My estimated Social Security benefit at age 70	\$1841	\$1483

(Example)

Social Security Feature	Self	Spouse
My Full Retirement Age (FRA)		
My estimated Social Security benefit at age 62		
My estimated Social Security benefit at FRA		
My estimated Social Security benefit at age 70		

You can find this information on your yearly Social Security benefits statement or online at: <http://www.ssa.gov/myaccount/>

Employer Sponsored Programs

Defined Benefit – Pensions: A defined benefit pension plan is a type of pension plan in which an employer/sponsor promises a specified monthly benefit on retirement that is predetermined by a formula based on the employee's earnings history, tenure of service and age, rather than depending directly on individual investment returns.

Defined Contribution - 401(k), 403(b) & 457(b): This type of plan does not promise to pay you a specific benefit at retirement. Under a defined contribution plan, your employer generally allocates contributions to your account, many times in the form of matching contributions. As an employee, you may be able to make contributions to your account within the plan. Your retirement benefit payable from a defined contribution plan depends solely on the value of your account balance when you retire.

- **401(k)s** are the version that corporations offer to their employees.
- **403(b)s** are for employees of public education entities and most other nonprofit organizations.
- **457s** are for state and municipal employees, as well as employees of qualified nonprofits.
- **Thrift Savings Plans (TSPs)** are for federal employees.

Personal Savings and Investments

Savings Account: A bank account that generally pays a low interest rate and offers lower minimum balance requirements. These accounts often carry a monthly service charge and may or may not have restrictions on the number of transactions you can make in a given month.

Money Market Account: An account that is similar to a savings account. However, money market accounts usually pay a higher amount of monthly interest than a savings account and require a higher monthly balance. Your money is usually invested in relatively safe investments and FDIC insured by the federal government up to \$250,000 per account.

Certificate of Deposit: These can usually be bought at a wide range of financial institutions. CDs usually pay a higher interest rate than money market accounts. They are very similar to savings accounts, except they are issued with maturity dates. These can also be FDIC insured.

IRA - Individual Retirement Account: A tax-advantaged retirement account that you own and control. Earnings generated can compound on a tax deferred basis until withdrawal.

- **Traditional IRA:** The oldest type of IRA. You contribute cash to the account and receive a tax deduction. You do not pay taxes on the earnings until you withdraw the funds. This is usually preferable from a tax standpoint, since your tax rate will probably be lower in retirement than while you are employed. Withdrawals are known as IRA distributions. You pay taxes on IRA distributions as if they were a paycheck. If you withdraw money from the account before you are 59.5 years old you must pay a tax penalty and any taxes due on the funds.
- **Roth IRA:** As with the Traditional IRA, you contribute cash to the account. However, you do not receive a tax deduction on your contributions. The money you earn grows in the account tax free, and you do not later pay taxes on any distributions from a Roth IRA. The Roth IRA has income limits. Contributions can be withdrawn at any time without a tax penalty, but withdrawals on earnings before age 59.5 and held for fewer than five years will be subject to federal tax penalties.
- **myRA:** myRA is a Roth IRA that invests in a new United States Treasury retirement savings bond, which will not lose money. myRA was designed for people without access to employer-sponsored retirement savings plans and for people looking for a simple, safe, and affordable way to start saving for retirement. myRA accounts cost nothing to open, have no fees, and don't require a minimum amount of savings. myRA accounts earn interest until the account reaches \$15,000 or 30 years from the day you first deposit into the account. Once one of these limits is reached, the myRA is rolled over into a Roth IRA account. You can withdraw contributions from your myRA account at any time without tax penalty. However, any earnings withdrawn before the age of 59.5 will be subject to tax penalty.

Stock: A share of a company held by an individual or group. Corporations raise money by issuing stocks to stock owners (shareholders) for partial ownership of the corporation. This ownership entitles the shareholder to a claim on part of the corporation's assets and earnings.

Bonds: Essentially loan agreements between the bond issuer and an investor, in which the bond issuer is obligated to pay a specified amount of money at specified future dates.

- **Corporate bonds:** Bonds issued by corporations to expand, cover expenses, and finance other activities. Corporate bonds are fully taxable and usually pay a higher rate of interest than government bonds. Corporate bonds are issued with a maturity date and cannot be cashed in for their full value until they are fully mature.
- **Government bonds:** Also known as Treasury Bonds. Issued by the United States governments to investors who are lending money to pay for government activities or to pay off government debt. Government bonds are also issued with a maturity date and cannot be cashed in for their full value until they are fully mature.

Annuities: A contractual financial product, usually sold by insurance companies or brokerage firms. Individuals purchase an annuity from an insurance company. In return for their payment, the insurance company agrees to provide either a regular stream of income, the right for you to withdraw up to a certain percentage a year or even a lump sum payment at some time in the future. The earnings from annuities grow tax deferred until withdrawal. The funds are taxed when the individual begins to withdraw funds from the annuity. There is a penalty for withdrawing funds from an annuity before a pre-determined date.

- **Immediate Annuities:** Usually purchased at retirement age, with benefits that begin immediately (within one year of purchase).

- **Deferred Annuities:** Offer benefit payments that begin at some future date. Interest usually accrues on a tax-deferred basis in the interim.
- **Fixed Annuity:** The payout is guaranteed and a fixed amount.
- **Variable Annuity:** The payout stream is determined by the performance of your annuity's underlying investment.

Mutual Funds: A pool of investments that are professionally managed by an investment firm. The mutual fund spreads its investments across a mixture of financial instruments, such as stocks, bonds, etc.

LIQUIDITY AND RISK

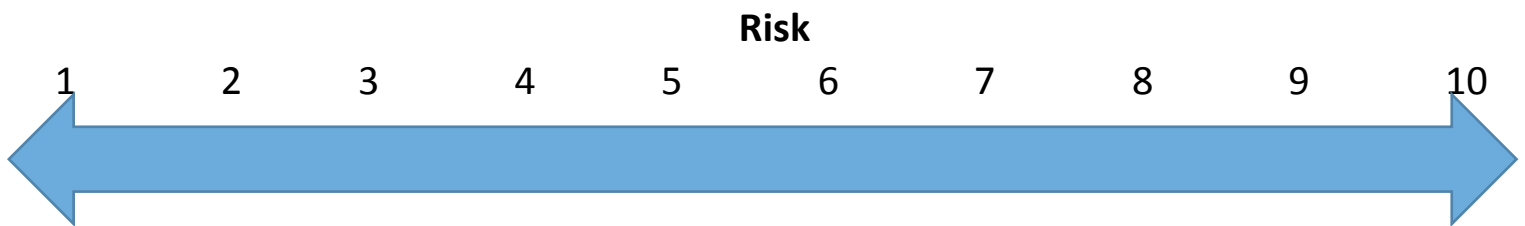
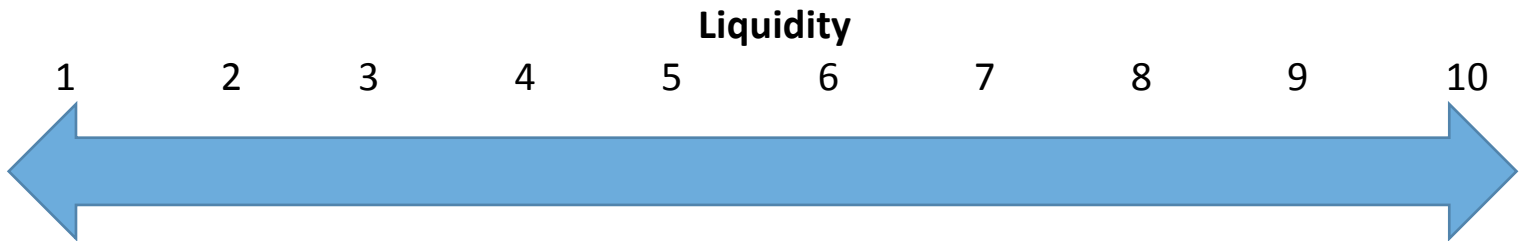
Liquidity

Liquidity is an investment term which refers to how easily you can access your money. A highly liquid account is one in which you can take out cash whenever you desire, like your checking account.

Risk

Risk refers to how likely you are to get the money you invested back. Some investments are riskier than others and people investing funds may be subject to losses if the investment loses value because of fluctuations in the market. Usually the higher the risk, the higher the interest or return rate on the money.

In the following exercise we will look at the personal savings and investment options above and gauge the liquidity and risk of each. Assign each term a liquidity number and a risk number between 1 and 10, 1 being the most liquid or least risky and 10 being the least liquid or the most risky.



Savings Account

Money Market Account

Certificate of Deposit

IRA

Stocks

Bonds

Annuities

Mutual Funds

TYPES OF BANKING INSTITUTIONS

Commercial Banks

A financial institution that provides services, such as accepting deposits, giving business loans and auto loans, mortgage lending, and basic investment products like savings accounts and certificates of deposit (CDs).

Credit Unions

A credit union is a member-owned financial co-operative. These institutions are created and operated by their members and profits are shared amongst the owners. Credit Unions often offer higher interest rates on savings than banks do.

Investment Companies

A corporation or trust engaged in the business of investing the pooled capital of investors in financial securities. This is most often done either through a closed-end fund or an open-end fund (also referred to as a mutual fund).

Brokerage Firms

A business whose main responsibility is to be the middle-man between buyers and sellers to facilitate a transaction. Brokerage companies are compensated via commission after the transaction has been successfully completed.

Online Banks

A bank that offers the same range of services as a traditional commercial bank, but does not have any brick and mortar locations. All banking activities are conducted via computer.

FDIC – Federal Deposit Insurance Corporation

Currently all deposits made to non-investment account are ensured up to \$250,000. FDIC insurance covers all types of deposits received at an insured bank, including deposits in a checking account, savings account, money market account, certificates of deposit, or an official item issued by a bank, such as a cashier's check or money order.

PRINCIPAL AND INTEREST

Principal is the amount you deposit into an account, or the money invested.
Example: You deposit \$1,500 in the bank, \$1,500 is your principal.

Interest is the amount of money returned to you, in excess of the principal you deposited or invested.

Simple Interest is interest paid to you on your principal only.

Example:

- You deposit \$1,500 in an account which earns 10% simple interest, in a year you earn \$150. Each month the account will be paid \$12.50. At the end of the year you will have a total of \$1,650.

Compound Interest is interest paid to you on your principal plus any reinvested interest.

Example:

- You deposit \$1,500 into an account that pays 10% compound interest.
- The first month you earn \$12.50, making your balance \$1,512.50.
- The second month you earn \$12.60 in interest on \$1,512.50, making your account balance \$1,525.10.
- The third month you earn \$12.71 in interest on \$1,525.10, making your account balance \$1,537.81.
- At the end of the year you will have \$1,670.88.

ESTATE PLANNING

Three Estate Planning Documents You Need to Understand

- Will
- Power of Attorney
- Trust

Will

A will is a document in which a person declares how they want their estate distributed in their death. It has no effect until the person who wrote it dies. You can revoke or change a will at any time prior to your death. Changes to your will are called a ***Codicil to Will***. If you die without a will, you will be considered *intestate* and the state will distribute your property to your heirs according to its intestacy statutes.

Seven Great Reasons to Have a Will

1. You decide how your estate will be distributed

A will is a legally binding document that allows you to determine how you would like your assets distributed among your heirs and others. If you die without a will, there is no guarantee that your wishes of asset distribution will be honored. A will minimizes the risk of family fights arising about your estate distribution.

2. You can avoid a long probate process for your heirs

Although all estates must go through the probate process, with or without a will, a will speeds up this process by informing the courts of your wishes. If you die without a will (known as dying *intestate*) the probate court will decide how to divide up your estate without your input, which could turn into a lengthy process for your heirs.

3. You minimize estate tax

A will minimizes your estate taxes because the value of what you give to family members or charities will reduce the value of your estate when it's time to pay taxes.

4. You can decide who will handle the affairs of your estate

You can appoint an executor in your will to make sure all of your affairs are in order, such as paying off bills, canceling your credit cards, etc. You want to be sure to appoint someone who is honest, trustworthy and reliable, since they will play the biggest role in the administering of your estate.

5. You can disinherit individuals, with the exception of a spouse, who otherwise stand to inherit

Most people do not realize they can disinherit individuals out of their will. Because wills specifically outline how you would like your estate distributed, without a will, your estate may end up on the wrong hands or in the hands of someone you did not intend (such as an ex-spouse with whom you had a bitter divorce, an estranged relative, etc).

6. You can make gifts or donations

You will have the ability to gift or donate to the charities that reflect your personal values and interests out of your estate. Gifts up to a certain amount are excluded from estate tax, so you will be increasing the value of your estate for your heirs.

What is Probate?

Probate is the legal process in which the court sees that your debts are paid and your assets are distributed according to your will upon your death.

Probate can be expensive. There are legal fees, executor fees and other costs that must be paid before your assets can be distributed in the manner in which you wished. If you own properties or assets in other states, your family can be faced with multiple probates according to the laws in each state, and be subjected to legal fees in each state.

Probate can be a long process. The average amount of time for probate can be anywhere from nine months to two years. However, there is always the possibility probate could go longer. Assets are usually frozen during this time period, so an accurate inventory can be taken.

Your family has no control in the probate process. The courts will determine how much it will cost, how long it will take and what information will be made public.

Michigan Statutory Will

A simple, free of cost will, recognized in Michigan as a legally binding document.

With a Michigan Statutory Will:

- You can leave up to two cash gifts of any amount to people or charities.
- You can write a list of personal and household items and name the person or entity to receive each item.
- You can ensure that the rest of your property goes to your spouse. If he or she dies before you, the property is to be distributed equally among your children.
- You can select a personal representative to administer your property.

How to use the Michigan Statutory Will

First, thoroughly read the entire form. Read the notice at the beginning and the definitions at the end. After you are sure you understand all of the will's provisions, carefully follow the directions and fill in the blanks.

Where to keep your Michigan Statutory Will

One option is to file it in probate court in the county you live in; such filings cost very little. Wherever you keep the will, it is a good idea to attach the list of personal items to the will. You may want to give a copy of the will to the person you have selected as your Personal Representative. If you file the will with a court, you should file a new copy any time you make a change.

<http://bloomlawfirm.com/sites/bloomlawfirm.com/files/legalforms/Michigan-Statutory-Will.pdf>

Valued Possessions

Many times when we think of wills and assets we consider the financial assets we hold. We should also consider the many items we value and wish certain individuals to have that can be included in our will. While you don't have to necessarily put mention of the specific items and wishes in your will, a written letter or statement with your intentions can be made reference to inside the will and kept with the document. This will allow you to make changes without making changes to the will. The following worksheet will allow you to think through who you would like to have some of your most valued non-financial possessions.

Item	Person

Power of Attorney

A Power of Attorney is a written and notarized document giving an individual the legal power to act on behalf of another according to the terms of the document. It is a document that you sign to give someone else the power or authority to handle your personal affairs.

Medical Power of Attorney - allows you to appoint someone to make medical decisions for you in the event you cannot make them for yourself due to incapacitation or cognitive decline.

Financial Power of Attorney - allows you to appoint someone who can have access to your money and financial records and handle your money for you when you cannot.

The person you name is known as an agent or attorney-in-fact (though the person need not be an attorney) who steps into your shoes, legally speaking. There is usually no court involvement, but this can vary state to state.

Simple Power of Attorney - A Power of Attorney that ends when its purpose is fulfilled or at your incapacity or death.

Durable Power of Attorney – This Power of Attorney remains effective even if you become incapacitated. If that happens, your agent can maintain your affairs until you are able to do so again, without any need for court involvement. This type of Power of Attorney ends only upon your death.

Power of Attorney for Finances

<http://www.sjpcommunications.org/images/uploads/documents/michpoafinances.pdf>

Power of Attorney for Healthcare

<http://med.wmich.edu/sites/default/files/Durable%20Power%20of%20Attorney%20for%20Healthcare.pdf>

Trust

A trust is a written agreement in which you give a trustee power to manage certain property for a beneficiary. There are several types of trusts. Purposes of the trusts include controlling assets after death, avoiding probate, providing for disability, and reducing inheritance taxes.

A Revocable Living Trust

Living trusts typically include a successor trustee, and instructions on how to distribute the assets upon your passing. It's "revocable" because, as long as you're mentally competent, you can change or dissolve the trust at any time at your own discretion for any reason.

Benefits of a Living Trust

- Avoids Probate at death
- Prevents the court's control of your assets in incapacity
- Brings all of your assets together under one plan
- Quicker distribution of assets to your beneficiaries
- Assets can remain in your trust until you want the beneficiaries to inherit (for example, you can set age requirements that grandchildren must reach before they receive their inheritance)
- Can be changed or cancelled at anytime
- Difficult to contest
- Provides you with peace of mind

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For more information contact the Institute of Gerontology at 313-664-2600