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Moving Gently into Retirement

For most of your working life, you've looked forward to the day when you can quit your job and start enjoying retirement. But in the face of longer life expectancies, uncertain Social Security benefits, declining pension benefits, unknown inflation rates, volatile markets, and low retirement savings, can you really afford to retire at a relatively young age and spend decades supporting yourself without a job?

The average life expectancy of a 65-year-old man is 81 and of a 65-year-old woman is 84. A 65-year-old couple has a 25% chance that one of them will live to 95. That's a long time to support yourself. More and more people are coming to the conclusion that either retiring later or continuing to work during retirement is necessary to ensure that they remain financially comfortable for the rest of their lives.

There are also some nonfinancial benefits for continuing to work:

✔ **Work keeps you healthier and mentally sharp.** Of those who had completely retired, 11% experienced a decline in mental health, 8% had an increase in illness, and 23% had increased difficulty in performing daily activities over a six-year period (Source: National Bureau of Economic Research, 2006).

✔ **Work enables you to maintain social contact with people outside your immediate family.** When individuals who had been retired for a year or two were asked what the hardest thing to deal with in retirement was, the number two answer, just behind loss of income, was loss of social connections at work (Source: *The New Retirement Mindscape*, 2006).

Working doesn't necessarily mean that you have to stay with your current employer. Rather, many individuals are taking on completely different jobs, which can allow them to try something totally different, provide more free time by working less, or ensure less stress.

Besides the nonfinancial reasons

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Your Emergency Reserve Fund

How much cash do you need to deal with short-term emergencies, such as a temporary job loss, a major home repair, or a large medical bill? A common rule of thumb is that you need a cash reserve equal to at least three to six months of living expenses.

However, like most rules of thumb, this one does not take into account your individual situation. Your needs will depend on your age, health, job outlook, and ability to borrow quickly in an emergency. You will probably need a larger reserve if you work at a seasonal job, own your own company, or rely on commissions or bonuses; you expect to be laid off or lose your job; or you are the sole wage earner in the family. You may need a smaller reserve if you have more than one source of income or you have the ability to borrow significant sums quickly, such as through a home-equity line of credit.

You should check the adequacy of your cash reserve on an annual basis. Changes in your personal or financial situation, such as the birth of a child or the purchase of a new home, can mean you need more or less in your reserve. If you'd like assistance calculating how much you need for your emergency cash reserve, please call. ❍❍❍

Debt Free

While it may be difficult to achieve debt-free status when you own a home with a mortgage, it is reasonable to owe no debts other than your mortgage. To help you with that goal, consider these steps:

1. Stop incurring new debt. If you are truly committed to reducing debt, stop incurring additional debt. Only use credit cards if you can pay the balance in full every month. If you don't have cash for a purchase, wait until you save the money.

2. Investigate consolidating debts with a lower interest rate option. You may be able to transfer credit card and other debt balances to lower interest rate alternatives. However, don't use this strategy until you have step 1 under control.

You may also want to consider using a home-equity loan to pay off your consumer debts. Home-equity loans typically carry lower interest rates than other forms of personal loans, and as long as the balance does not exceed $100,000, interest paid on home-equity loans is deductible on your tax return as an itemized deduction. Keep in mind that you are taking equity out of your home. This may be a good tradeoff if you use the funds to reduce higher-cost debt.

3. Prioritize and pay down your debts. List all your debts and monthly payments, listing the debts from highest to lowest interest rates. Add up your minimum payments and then determine how much more you can budget to pay down those debts. Rather than paying a little bit extra on all your debts or adding extra to your mortgage payment, use these additional funds to pay off the debt with the highest nondeductible interest rate. Once that debt is paid in full, start paying the debt with the next highest interest rate, continuing until all your debt is paid in full.

If you'd like help reducing your debts, please call. ❍❍❍

Using IRA Distributions for Charitable Contributions

As part of the Pension Protection Act of 2006, taxpayers age 70 1/2 and older can take tax-free distributions, up to $100,000 in 2006 and 2007, from traditional and Roth individual retirement accounts (IRAs) for charitable purposes. This provision is expected to increase charitable contributions from IRAs. Without this provision, donors typically find that the income tax deduction for the charitable contribution is not enough to offset the tax bill generated by the IRA distribution. With this provision, the income from the IRA is not included in gross income, and the charitable contribution cannot be deducted on the donor's tax return.

To qualify, the distribution must meet these conditions:

✔ The distribution must be made from an IRA. Distributions from 401(k) plans, SEPs, and SIMPLE plans do not qualify. However, rollovers from another retirement plan to an IRA can be used for this purpose.

✔ Charitable contributions must be made to public charities, such as churches, hospitals, museums, and educational organizations. Contributions cannot be made to private foundations, donor advised funds, supporting organizations, or split-interest entities.

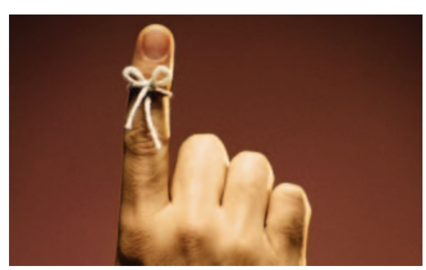
✔ The IRA owner must be at least age 70 1/2.

✔ The distribution must be made directly to the charity. If the IRA owner takes the distribution and issues his/her own check to the charity, it will not qualify.

✔ The distribution must otherwise be fully deductible as a charitable contribution. Thus, the donor must not receive any benefit from the contribution or the entire distribution is disqualified from IRA charitable rollover treatment. The donor must obtain a written acknowledgement from the charity that no goods or services were received in return for the contribution.

✔ The distribution must otherwise be included in gross income. Thus, only the taxable portion of the IRA distribution qualifies. If a nontaxable distribution is taken from the IRA, the IRA owner would not have to include the distribution in income and could take a charitable contribution deduction. Qualified distributions from an IRA to charity are deemed to come first from the taxable portion of the IRA, leaving the maximum amount of tax-free dollars in the IRA.

The provision is expected to benefit taxpayers who do not itemize deductions, who want to donate more than they can currently deduct as a charitable contribution, or who find that excluding the distribution from gross income will allow them to retain other tax benefits, such as allowing a higher percentage of their medical expenses to be deducted or subjecting less of their Social Security income to income taxes. Please call if you'd like to discuss this in more detail. ❍❍❍



Moving Gently

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for working, there are several financial reasons that make this an important retirement strategy:

✔ **You have more time to save.** Each additional year you work is an additional year you can continue to save for retirement. Those age 50 and over have additional means for saving, with annual catch-up contributions of $1,000 for individual retirement accounts (IRAs) and $5,000 for 401(k) plans in 2007.

✔ **You shorten your retirement.** The longer you work, the less time you will spend in retirement, which means you need less money to fund that retirement.

✔ **You can delay Social Security benefits.** Every additional year you wait to take Social Security benefits before the age of 70 will increase your monthly benefit.

✔ **You keep health insurance benefits.** One of the most significant costs in retirement is health care, and you can delay the cost by working at a job that provides this benefit.

Some companies are helping employees with retirement issues by allowing phased retirement, where hours are gradually reduced until full retirement. One possible advantage of staying with your current employer is that the pay may be better than if you started over in another profession. If your employer offers a phased retirement program, find out these details:

✔ **How will phased retirement affect your pension?** Many pension benefits are calculated based on your earnings in the last few years of your working career. If you don't want to take pension benefits yet, make sure your pension will be calculated using earnings while you worked full-time. You may also be able to draw a pension and work part-time. The Pension Protection Act of 2006 allows workers age 62 and older to draw a pension and work part-time.

✔ **What will happen to your salary with reduced hours?** Will you receive a pro-rata share of your pay, or will a different pay scale be used? Will you be entitled to salary increases in the future? Make sure you agree on how you will be paid before going to part-time status.

✔ **Will you be eligible for health insurance benefits?** Find out the company's policy about health insurance benefits for part-time employees. This will be especially important if you go to part-time status before age 65, since you won't be eligible for Medicare.

✔ **What other details should you know about?** Make sure there is a mutual understanding about hours. Can you take time off for travel? Is this a permanent or short-term arrangement? If you don't like part-time work, can you go back to your full-time job?

If your employer doesn't offer a phased retirement program or you want to try something new, investigate your options before quitting your job. Consider many factors:

✔ How are you planning on spending your retirement? If you plan to travel a lot, how will work fit into that schedule? If you plan to split your time between two homes in two locations, how will you be able to work?

✔ What interests you? Would you be happier pursuing a job that takes advantage of skills from your current job, or would you like to try something totally different? Do you need to obtain additional skills or go back to school?

✔ Do you want to work in an office, by yourself, or at home?

✔ Do you want a job with significant responsibility, or are you trying to reduce the stress in your life?

✔ Are you passionate about an interest or hobby that you may be able to turn into a business? Do you have an interest in starting your own business? If so, do you have the financial resources, without risking your retirement funds?

✔ Is there a cause that is important to you? Is it time to move to the nonprofit sector, finding an opportunity that matters to you at a personal level?

The last generation was able to retire to a life of total leisure due to the generosity of company pension benefits and Social Security. But longer life expectancies and less generous benefits mean that it is time to redefine retirement. What many are seeking is not so much total leisure as more leisure or a more meaningful life. Many are finding that those goals can be accomplished while still working, and that those additional working years can provide more financial security. If you'd like to discuss work and its role in your retirement, please call. ❍❍❍

A Guardian for Your Children

For parents with minor children, the most important reason for estate planning is to ensure that provisions have been made for their children. Some items to consider include:

✔ **Carefully select a guardian.** While your first inclination may be to select your parents, make sure they will have the energy to raise your children. A better alternative may be a sibling or friend. If you have several children, decide whether it is reasonable to expect one person to raise them all.

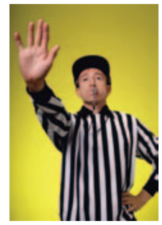
✔ **Talk to your selected guardian.** Once you've settled on a guardian, discuss your decision with that person to make sure he/she is willing to take on the responsibility. Name a contingent guardian in case your first choice is unable to serve.

✔ **Make adequate financial arrangements.** You wouldn't want your children to be a financial burden, or their presence may be resented. Determine how much is needed for living expenses, hobbies, medical expenses, and college. Include a financial cushion so there is plenty of money until your children reach adulthood.

✔ **Decide who should manage your children's finances.** The person with physical custody of your children may not be the best person to handle their finances. Thus, you may want to select another individual for that role. You should also consider whether trusts need to be set up and how money should be distributed.

✔ **Express your wishes to your selected guardian.** Make sure to indicate your preferences for education, religion, lifestyle, and other factors.

✔ **Review your choice of guardian every year.** As your children grow, you may realize that the person you originally selected as guardian is no longer the right choice. ❍❍❍



How Many Credit Cards?

It seems like every time you open the mail, there's a new offer for a credit card. With credit so easily available, how many credit cards should you carry?

Credit agencies warn that too many credit cards can lead to a higher risk of incurring too much debt. A large number of credit cards can have a mixed effect on your credit score as well. As a general rule, each store credit card will reduce your overall credit score by 20 points. Thus, you should only open credit cards at stores you shop at frequently, especially if the store provides coupons, bonus points, and information on upcoming sales.

On the other hand, if you have a large number of cards with a low amount of debt outstanding on them, that can help your credit score. Typically, credit agencies like to see your outstanding debt at less than 50% of your available credit. Over 50% is a flag to the credit agencies that you might be using too much credit and may have trouble paying off your debt. ❍❍❍

Financial Thoughts

Only 19% of workers know when they will be eligible for full Social Security benefits, while 49% think they will be eligible earlier than the actual date (Source: Employee Benefit Research Institute, 2006).

Women age 65 or older have a 44% chance of entering a nursing home at some point in their lives (Source: *Journal of Financial Planning*, November 2006).

There are 611,000 U.S. households with $1 million or more in investable assets where women are the primary financial decision makers, compared to 3.5 million households where men make the financial decisions (Source: *Journal of Financial Planning*, November 2006).

Approximately 25% of working adults age 45 and older with a living parent provided financial assistance to the parent. Approximately 80% had an adult child age 25 or older, with 45% of those adults helping to support the child (Source: PlanSponsor.com, 2006).

A recent study found that the average worker needed to save an additional 21.2% of pay every year to accumulate an adequate amount of retirement savings. Individuals under age 25 need to save an additional 3.3%, while those between the ages of 55 and 64 need to save an additional 53.8% (Source: Georgia State University, 2006). ❍❍❍