## The Inflation Factor

Inflation is a widespread and sustained increase in the general price level of goods and services. Economists say that when prices go up 3 percent or more a year, the country is in a state of inflation. While just about everyone gets hurt by inflation, people who live on fixed incomes may feel the crunch more than others because prices rise but their income doesn't. Increases in inflation rates have been extremely modest in recent years – between 2 percent and 4 percent. But even a 2 percent increase every year will have a cumulative effect, and prices will be higher in the future than they are now. That's why it makes sense to build inflation into your retirement plans.

On Worksheet 2, "Estimated Annual Cost of Living," you filled in the first column with the cost you calculated for each of the expense categories listed. To fill in the second column, use Table 1, "The Inflation Factor" (on this page).

(1) Choose the number of years until your retirement starts from the "Years to Retirement" column on the left of Table 1.

(2) Then select an estimated annual inflation rate from the row across the top. Inflation cannot be predicted from year to year. In 1980, it was 12.4 percent. In 2001, it was 1.6 percent. In 2007, it was 4.1 percent. You have to make an educated guess.

(3) Read across and down to find the appropriate inflation factor corresponding to your predicted rate of inflation. For example, 10 years at 6 percent inflation gives a factor of 1.79.

(4) Multiply your estimated annual cost of living expenses from the first column of Worksheet 2 by the inflation factor to get an idea of the amount of income you will need for your first year of retirement, if you want to maintain your current lifestyle. (Example: $14,000 x 1.79 = $25,060.)

### Table 1. The Inflation Factor

| Years to Retirement | Annual Inflation Rate | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2%** | **3%** | **4%** | **5%** | **6%** | **7%** | **8%** | **9%** | **10%** | **11%** |
| **1** | 1.02 | 1.03 | 1.04 | 1.05 | 1.06 | 1.07 | 1.08 | 1.09 | 1.10 | 1.11 |
| **2** | 1.04 | 1.06 | 1.08 | 1.10 | 1.12 | 1.15 | 1.17 | 1.19 | 1.21 | 1.23 |
| **3** | 1.06 | 1.09 | 1.13 | 1.16 | 1.19 | 1.23 | 1.26 | 1.30 | 1.33 | 1.37 |
| **4** | 1.08 | 1.13 | 1.17 | 1.22 | 1.26 | 1.31 | 1.36 | 1.41 | 1.46 | 1.52 |
| **5** | 1.10 | 1.16 | 1.22 | 1.28 | 1.34 | 1.40 | 1.47 | 1.54 | 1.61 | 1.69 |
| **6** | 1.13 | 1.19 | 1.27 | 1.34 | 1.42 | 1.50 | 1.59 | 1.68 | 1.77 | 1.87 |
| **7** | 1.15 | 1.23 | 1.32 | 1.41 | 1.50 | 1.61 | 1.71 | 1.83 | 1.95 | 2.08 |
| **8** | 1.17 | 1.27 | 1.37 | 1.48 | 1.59 | 1.72 | 1.85 | 1.99 | 2.14 | 2.30 |
| **9** | 1.20 | 1.31 | 1.42 | 1.55 | 1.69 | 1.84 | 2.00 | 2.17 | 2.36 | 2.56 |
| **10** | 1.22 | 1.34 | 1.48 | 1.63 | 1.79 | 1.97 | 2.16 | 2.37 | 2.59 | 2.84 |
| **11** | 1.24 | 1.38 | 1.54 | 1.71 | 1.90 | 2.11 | 2.33 | 2.58 | 2.85 | 3.15 |
| **12** | 1.27 | 1.43 | 1.60 | 1.80 | 2.01 | 2.25 | 2.52 | 2.81 | 3.14 | 3.50 |
| **13** | 1.29 | 1.47 | 1.67 | 1.89 | 2.13 | 2.41 | 2.72 | 3.07 | 3.45 | 3.88 |
| **14** | 1.32 | 1.51 | 1.73 | 1.98 | 2.26 | 2.58 | 2.94 | 3.34 | 3.80 | 4.31 |
| **15** | 1.35 | 1.56 | 1.80 | 2.08 | 2.40 | 2.76 | 3.17 | 3.64 | 4.18 | 4.78 |
| **16** | 1.37 | 1.61 | 1.87 | 2.18 | 2.54 | 2.95 | 3.43 | 3.97 | 4.60 | 5.31 |
| **17** | 1.40 | 1.65 | 1.95 | 2.29 | 2.69 | 3.16 | 3.70 | 4.33 | 5.05 | 5.90 |
| **18** | 1.43 | 1.70 | 2.03 | 2.41 | 2.85 | 3.38 | 4.00 | 4.72 | 5.56 | 6.54 |
| **19** | 1.46 | 1.75 | 2.11 | 2.53 | 3.03 | 3.62 | 4.32 | 5.14 | 6.12 | 7.26 |
| **20** | 1.49 | 1.81 | 2.19 | 2.65 | 3.21 | 3.87 | 4.66 | 5.60 | 6.73 | 8.06 |

From *Financial Planning for Retirement*, NCR-264, Field and Hathaway, Michigan State University CES, 5/87.

## Worksheet 5 – Large Future Irregular Expenses

| | Year Bought | Average Expected Years of Life | Year to Replace | Present Replacement Price | *Estimated Price in Replacement Year |
|---|---|---|---|---|---|
| Vehicles: | | | | | |
| Car | ______ | ? | ______ | $______ | $______ |
| Other vehicles | ______ | ? | ______ | $______ | $______ |
| Appliances: | | | | | |
| Range | ______ | 12-13 | ______ | $______ | $______ |
| Refrigerator | ______ | 15 | ______ | $______ | $______ |
| Dishwasher | ______ | 11 | ______ | $______ | $______ |
| Washer | ______ | 11 | ______ | $______ | $______ |
| Dryer | ______ | 13-14 | ______ | $______ | $______ |
| Freezer | ______ | 20 | ______ | $______ | $______ |
| Furnace | ______ | 25-30 | ______ | $______ | $______ |
| Water heater | ______ | 12 | ______ | $______ | $______ |
| Other | ______ | ______ | ______ | $______ | $______ |
| | ______ | ______ | ______ | $______ | $______ |
| House: | | | | | |
| Roof (varies with type) | ______ | 15-30 | ______ | $______ | $______ |
| Fencing | ______ | 20-30 | ______ | $______ | $______ |
| Other | ______ | ______ | ______ | $______ | $______ |
| | ______ | ______ | ______ | $______ | $______ |
| | ______ | ______ | ______ | $______ | $______ |
| Furnishings: | | | | | |
| Carpet | ______ | 8-15 | ______ | $______ | $______ |
| Drapes, window treatments | ______ | 10 | ______ | $______ | $______ |
| Flooring, hard surface | ______ | 15 | ______ | $______ | $______ |
| Furniture | ______ | will vary | ______ | $______ | $______ |
| Other | ______ | ______ | ______ | $______ | $______ |
| | ______ | ______ | ______ | $______ | $______ |

* Calculate by counting the number of years until the replacement year. Then, choose an inflation factor from the chart on page 7 and multiply by the "present replacement price."

Adapted from *Financial Planning for Retirement*, NCR-264, Field and Hathaway, Michigan State University CES, 5/87.

## Worksheet 6 – How Much Are You Worth?

Name ______________________________ Date ______________________________

| **Assets** | | **Liabilities** | |
|---|---|---|---|
| **Cash and cash equivalents:** | | Past due bills for services, rent, etc. | $ |
| Cash on hand | $ | **Credit cards/charge accounts:** | |
| Checking account(s) | $ | | $ |
| Savings account(s) | $ | | $ |
| Certificate of deposit (CD) | $ | | $ |
| Savings bonds | $ | | $ |
| Treasury securities | $ | | $ |
| Money market funds/Money market deposit accounts | $ | | $ |
| **Investment assets:** | | **Consumer installment debt:** | |
| Stocks | $ | Automobile | $ |
| Bonds | $ | Other | $ |
| Mutual funds | $ | Real estate debt: | $ |
| Real estate: | $ | Home | $ |
| Home | $ | Other | $ |
| Other | $ | Taxes | $ |
| Cash value of life insurance/ annuities | $ | Pledges: charities, churches, etc. | $ |
| Partnership and business interest | $ | **Other:** | |
| **Retirement assets:** | | | $ |
| IRA/Keogh account | $ | | $ |
| Employee retirement fund | $ | | $ |
| Other | $ | | $ |
| **Consumption assets:** | | | |
| Home furnishings/appliances | $ | **Total liabilities** | $ |
| Sports and hobby equipment | $ | | |
| Antiques, art, collections | $ | | |
| Jewelry, furs, etc. | $ | | |
| Automobiles/vehicles | $ | | |
| | | | |
| **Other:** | | | |
| | $ | TOTAL ASSETS | $ |
| | $ | LESS TOTAL LIABILITIES | $ |
| | $ | | |
| **Total assets** | $ | NET WORTH | $ |

From *Family Financial Planning: Preparing and Using Financial Statements*, Morrow, Oregon State University CES, 1992

Social Security is generally based on your lifetime earnings record (or your spouse's earnings record) and your age.

To receive a Social Security retirement check, you (or your spouse) must have received credit for a certain amount of earnings under Social Security. Generally, you must have worked 40 quarters, or 10 years. Special rules apply to the employees of nonprofit organizations, state and local government employees, and all federal employees hired before January 1984.

You can begin receiving benefits as early as age 62 if you (or your spouse) have covered earnings for enough years. However, if you elect to take early retirement, the benefit amount you receive will be less than your full retirement benefit. This is a permanent reduction in the amount of the monthly check you will get; your benefit check will not increase when you reach full retirement age.

The decision about when to start drawing benefits isn't the same for everybody, and which option will provide you with the most benefits over your lifetime depends on how long you live. People can get a rough estimate of their personal break-even point by using the Quick Calculator on the Social Security Web site at www.ssa.gov/

According to the Social Security Administration Web site: "For most people the total amount of lifetime benefits you receive is about the same if you begin receiving your retirement benefits as early as 62 at a permanently reduced rate, at your full retirement age without reduction, or as late as age 70 with special delayed retirement credits added on."

Sometimes, poor health forces people to retire early. If you are unable to continue working because of poor health, consider applying for Social Security disability benefits. The amount of the disability benefit is the same as a full, unreduced retirement benefit.

If you were born before 1938, you were eligible for your full Social Security benefits at the age of 65. However, beginning in the year 2000, the age at which full benefits are paid began to increase in gradual steps from age 65 to age 67 (see Table 3 below).

You may choose to keep working even beyond your full retirement age. If you do, you can increase your future Social Security benefits in two ways. Each additional year you work adds another year of earnings to your Social Security record. Higher lifetime earnings may mean higher benefits when you retire.

Also, your benefit will increase automatically by a certain percentage from the time you reach your full retirement age until you start receiving your benefits or until you reach age 70. The percentage varies depending on your year of birth. For example, if you were born in 1943 or later, Social Security will add 8 percent per year to your benefit for each year that you delay signing up for Social Security beyond your full retirement age. (See Table 4, p. 16)

Even if you delay retirement, be sure to sign up for Medicare at age 65. In some cases, medical insurance costs more if you delay applying for it.

### Table 3. Age to Receive Full Social Security Benefits

| Year of Birth | Full Retirement Age | Age 62 Reduction in Months | Monthly % Reduction | Total % Reduction |
|---|---|---|---|---|
| 1937 or earlier | 65 | 36 | .555 | 20.00 |
| 1938 | 65 and 2 months | 38 | .548 | 20.83 |
| 1939 | 65 and 4 months | 40 | .541 | 21.67 |
| 1940 | 65 and 6 months | 42 | .535 | 22.50 |
| 1941 | 65 and 8 months | 44 | .530 | 23.33 |
| 1942 | 65 and 10 months | 46 | .525 | 24.17 |
| 1943-1954 | 66 | 48 | .520 | 25.00 |
| 1955 | 66 and 2 months | 50 | .516 | 25.84 |
| 1956 | 66 and 4 months | 52 | .512 | 26.66 |
| 1957 | 66 and 6 months | 54 | .509 | 27.50 |
| 1958 | 66 and 8 months | 56 | .505 | 28.33 |
| 1959 | 66 and 10 months | 58 | .502 | 29.17 |
| 1960 and later | 67 | 60 | .500 | 30.00 |

Source: www.ssa.gov/retiredchartred.htm

As a spouse, you can receive benefits based on your working spouse's benefit. Generally, this is one half of his or her benefit at full retirement age. But the amount of your benefit will be reduced if you claim it before full retirement age. If you are eligible for Social Security benefits under your own work record, you have the option of choosing that benefit instead.

If you are divorced (even if you have remarried), you can be eligible for benefits on your ex-spouse's record if you were married for at least 10 years and are age 62 or older. You must be unmarried at the time you apply and not eligible for an equal or higher benefit amount on your own or someone else's Social Security record.

To estimate how much your benefit might be, ask your local Social Security office or send for a copy of the free booklet *How Your Retirement Benefit is Figured* (ask for the booklet that corresponds to your birth year). This information is also available on the Internet at www.ssa.gov/pubs/#retirement. Ask your Social Security office for help if you don't understand any part of the information.

You should also check the record of your earnings kept by Social Security to be sure it is accurate. Every year the Social Security Administration sends "Your Social Security Statement," Form SSA-7005-5M-S1(1-2002), which shows your earnings record and your potential benefits. Compare the statement of earnings printout sent back to you with the earnings reported on your W-2 forms for the same years. If you find any errors, either in your employer's reporting or in the Social Security records, report them at once to the Social Security Administration and be sure they are corrected so your benefit will be correct when you retire.

Apply for benefits at least three months before you plan to retire. Take with you your Social Security card (or a record of your number); your birth certificate; your marriage certificate (if signing up on a spouse's record); your divorce papers if you were married for 10 years or more; and your W-2 forms for the past two years or tax returns if you are self-employed. Call ahead and ask your Social Security office if you need to bring other documents. Look under United States Government in your phone book for your local Social Security office number. It's a good idea to ask for the least busy times to come in, so that you will not have to wait long when you do go.

### Table 4. Benefit Increases for Delayed Retirement

| Year of Birth | Yearly Percentage Increase |
|---|---|
| 1933-1934 | 5.5% |
| 1935-1936 | 6.0% |
| 1937-1938 | 6.5% |
| 1939-1940 | 7.0% |
| 1941-1942 | 7.5% |
| 1943 or later | 8.0% |

Source: U.S. Department of Health and Human Services, Washington, D.C.: Retirement Benefits. Retrieved August 2006 from www.ssa.gov/retire2/delayret.htm

Laws governing eligibility, as well as how benefits are calculated, have been changed several times in the past and will undoubtedly be changed again, so you need to keep track of changes and how they affect you.

## 2. Retirement Plans and Other Benefits

Retirement plans are important benefits provided by private and public employers, unions, and the military. If you have rights to a retirement benefit, you are fortunate. Many people work in jobs where no pensions are provided or they have not worked long enough in any one job to earn vested rights to a pension. ("Vesting" refers to the date when you are entitled to the money you and your employer have contributed to your account, even if you leave the job before you retire. If your pension rights are not vested, you will get back only your own contributions.) Many women over age 65 do not have survivor's rights to their husbands' pensions, either because their husband has not chosen a survivor annuity from his employer's pension plan, or because divorce or early death of the husband gave no rights to his widow.

If you do have rights to a pension, what kind is it? Defined-benefit plans use a specific formula to determine how much you will get, usually based on your years of service and salary level. Defined-contribution plans are ones where you and/or your employer contribute a specific amount to your account, but the amount of your pension is determined by the investment performance of the total dollars contributed.

If you have a retirement plan, you will need to ask several questions to fully understand your benefits. Some of these questions are:

- How will your pension be calculated?
- How much will your pension be?
- How does your pension plan define "a year of service"?

- Will your pension be integrated with Social Security? This means a certain percentage of your Social Security benefit will be subtracted from your pension, thus reducing your pension income.
- What pension payment options will you have?
- Will your pension be a fixed number of dollars?
- Will your pension be indexed to inflation?
- Are options offered for lump sum payments that you then invest, or for regular monthly or annual checks?
- What are the rules for figuring the income tax you will have on your pension income?
- Does your pension plan provide for early retirement benefits if you quit work before age 65?
- Does you pension plan provide disability benefits for fully vested participants?
- At your death, what type of benefit will your beneficiary receive — your contributions plus interest, monthly benefit checks, or a lump sum?
- Does your beneficiary collect all or part of your accumulated benefits if you die before retirement?
- If you die after you retire, does your beneficiary continue to receive benefits? If so, how much and for how long?

For details about your pension rights and pension plan, talk to someone in your employer's benefits or human resources office. If you worked at other jobs long enough to earn a vested pension, inquire there, too, about what pension income you can expect.

Spouses should talk over this information before making irrevocable decisions. The 1974 Employee Retirement Income Security Act (ERISA) requires pension plans to contain an option that pays a surviving spouse at least half the pension of the retired married worker; but this usually reduces the basic worker's pension in what is called a "joint-and-survivor annuity." To protect dependent, non-employed spouses, ERISA requires the signature of both the worker and the dependent spouse before waiving survivor's pension rights.

When you retire, will you be eligible to continue other employee benefits? Can you continue your health and life insurance coverage? Can you continue other job benefits, such as employee discounts, profit sharing and stock purchase plans, union membership, or dental and vision insurance? Military veterans have rights to certain benefits that they can inquire about through the Veterans Administration office. Find out exactly what you have rights to and can count on for income or savings in retirement.

### 3. Savings and Investments

There are tax-deferred financial products that you can invest in to save for retirement. These include Individual Retirement Accounts (IRAs or Roth IRAs), 403(b) plans (if you work for certain nonprofits such as schools, hospitals or churches); 401(k) plans, deferred compensation, thrift or personal savings plans, simplified employee pension plans (SEPs), or a Keogh Plan if you are self-employed.

Will you use all the earnings from these investments for annual income? Or will you continue to put at least part of these earnings back into investments and savings accounts to further build up your capital?

Consider changes you might make in your current savings/investment plan to yield more income for retirement, if needed. Can you save more out of current income? Can you shift your funds to higher yielding or better growth investments? Consider safety of the principal, liquidity and flexibility, and the investment's ability to keep ahead of inflation; and don't "put all your eggs in one basket."

### 4. Earnings

If you haven't reached your full retirement age when you apply for benefits, and you are still working, you will lose $1 in benefits for every $2 in income you earn over $14,160 (in 2009) until you reach full retirement age. The amount goes up every year. Check with your Social Security office for the amount you are allowed to earn without a penalty in the years after 2009. Once you reach your full retirement age, there is no limit on the amount of money you may earn and still receive your full Social Security retirement benefit.

Consider additional expenses you might have if you go back to work, such as the costs of special clothing, transportation to and from the job, meals out, union fees or dues, and income and Social Security taxes. Balance your net income against the psychological benefits of working before deciding whether or not to work and how much to work after you retire.

### 5. Assets That Could Be Liquidated

Do you have assets that you could turn into extra income if you needed it? Could you sell an asset and invest the proceeds to yield regular interest or dividend income?

Home equity is the most important asset for many elderly people. Seventy-five percent of households headed by elderly persons are owner-occupied, and of these, 80 percent own their homes free and clear. Many homeowners could benefit from converting some or all of their home equity into income. There are reverse mortgages, sale/leaseback arrangements, and other methods for tapping into home equity while continuing to live in the home. Look at your net worth statement. Assets such as coin or stamp collections, china, silver, and crystal could be converted into cash that can then be invested to create additional retirement income.

## Total Income

On Worksheet 7, "Estimated Annual Income After Retirement" (page 19), enter all the sources of income you can count on, and add up the amounts. This will give you an estimate of your total gross income. You may have to pay income tax on at least part of that income, and Social Security taxes as well. In the bottom section of Worksheet 7, enter your best estimate of the amounts of income and Social Security taxes you might owe under present tax law. Subtract these estimates from your gross income to get an estimate of the net annual income you can expect in retirement. Major changes in the tax law were made in 1997 and 2001. Expect future changes in tax law that will change your tax liability estimates.

## Where to Go for Information

Social Security: Get information and an estimate of your future Social Security income from your local Social Security office. If you have access to the Internet, the address is www.ssa.gov/

Pension: Get information from your employer's benefits or human resources office. If you earned vested rights to a pension from an earlier job, check with that benefit office, also.

Savings and investments: There are a number of financially oriented newspapers, magazines, books, and Internet sites that will give you information. You also can consult your financial advisor or financial institution.

Earnings: Check what income you might earn in a job after you retire.

Assets: Talk to an appropriate appraiser and/or financial advisor on what income might be obtained from liquidating assets and reinvesting the proceeds.

## Balancing Income with Expenses

Compare the total net income you estimated you would have when you retire (see Worksheet 7, "Estimated Annual Income After Retirement") with the total expenses you estimated you would have the year you retire (column one on Worksheet 4). Will you have enough income to cover all your expenses? You may be fortunate to have more than enough income to take that big trip or tackle that desired special project. Or, your income may not even cover your basic estimated expenses. If that is the case, start planning now how to either increase your retirement income or cut your expenses, or both.

And take inflation into account! Look at the third column on Worksheet 4, your estimated expenses 10 years into retirement, and the rate of inflation you selected. Will your income at that time be enough to cover your expenses? Use Worksheet 8, "Estimated Annual Income 10 Years After Retirement" (page 20) to identify your expected sources of income then, and consider how each source might be affected by inflation. How much will your income grow with inflation? Your Social Security payments are currently indexed to inflation. But is your pension? Will your savings/investment plans provide income that keeps up with inflation, grows faster, or falls behind?

## Increasing Income

The farther away retirement is, the more opportunity you have to increase your retirement income. But you need to start now. Your Social Security pension formulas are fixed. But your employer may provide options for you to make additional contributions to your pension plan. Or your job may allow you to purchase a Supplement Retirement Annuity (SRA) with before-tax dollars, or make contributions to a 401(k) plan.

Do you already have a traditional Individual Retirement Account (IRA) or Roth IRA? Have you contributed the maximum allowable amount each year? Is it earning and growing fast enough? Should you transfer it to another financial institution, or open this year's IRA somewhere else? Is a Roth IRA, which allows you to accumulate all earnings tax-free, more compatible with your savings goals?

It has always been a good idea to save for retirement by utilizing tax-advantaged investment vehicles such as the traditional IRA or Roth IRA, or an employer-sponsored plan such as a 401(k) or 403(b). It is hard to match the benefits that come with tax-deferred investing, multiplied over time by compounding interest.

## Worksheet 7 – Estimated Annual Income After Retirement

Enter all the sources of income you can count on and add up the amounts. Add up the estimates of income taxes you may have to pay and subtract them from your gross income to get an estimate of the net annual income you can expect in retirement.

| | Yearly Income |
|---|---|
| 1. Social Security: | |
| Man's at age____ | ____________ |
| Woman's at age ____ | ____________ |
| 2. Pensions and Employer Benefits: | |
| Company | ____________ |
| State or federal government | ____________ |
| Veteran's | ____________ |
| Union or other | ____________ |
| Profit sharing | ____________ |
| Deferred pay | ____________ |
| Other | ____________ |
| 3. Savings and Investments: | |
| IRA/Roth IRA | ____________ |
| Keogh or SEP | ____________ |
| Savings account (interest) | ____________ |
| Money market (interest) | ____________ |
| Treasury securities (interest) | ____________ |
| Mutual funds (dividends, capital gains) | ____________ |
| Stocks (dividends) | ____________ |
| Bonds (dividends) | ____________ |
| Real estate | ____________ |
| Farm/business rent or installment payments | ____________ |
| Home equity conversion | ____________ |
| Annuities | ____________ |
| Other | ____________ |
| 4. Earnings: | |
| Salary, wages | ____________ |
| Commissions, royalties, fees | ____________ |
| Partnership income | ____________ |
| 5. Income from Assets That Could Be Liquidated | |
| Real estate | ____________ |
| Mutual funds | ____________ |
| Stocks | ____________ |
| Bonds | ____________ |
| Antiques, collectibles | ____________ |
| Farm/business | ____________ |
| Anticipated gifts or inheritance | ____________ |
| ESTIMATED TOTAL GROSS INCOME | ____________ |
| 6. Possible Deductions from Income | |
| Federal income tax | ____________ |
| State/county tax | ____________ |
| Social Security tax | ____________ |
| ESTIMATED TOTAL DEDUCTIONS | ____________ |

(Subtract total tax deductions from total gross income to estimate your total net income.)

TOTAL ESTIMATED NET INCOME ____________

Adapted from *Financial Planning for Retirement*, NCR-264, Field and Hathaway, Michigan State University CES, 5/87.

## Worksheet 8 – Estimated Annual Income 10 Years After Retirement

Look 10 years into retirement and see how your estimated income will keep up with inflation. In the first column, copy your figures from Worksheet 7, "Estimated Annual Income After Retirement." Then, for each source of income, estimate how it will grow over the next 10 years. Some sources, like a pension or fixed annuity, will not change. For those sources that could change, use the same inflation rate from the table on page 7 that was used for completing Worksheet 4. Compare your estimated income 10 years after retirement with your estimated expenses 10 years after retirement.

Inflation Rate = ______% (same as on Worksheet 4)

| | Yearly Income at Retirement | Inflation Factor | Yearly Income 10 Years After Retirement |
|---|---|---|---|
| 1. Social Security: | | | |
| Man's at age ______ | ______ | ______ | ______ |
| Woman's at age ______ | ______ | ______ | ______ |
| 2. Pensions and Employer Benefits: | | | |
| Company | ______ | ______ | ______ |
| State or federal government | ______ | ______ | ______ |
| Veteran's | ______ | ______ | ______ |
| Union or other | ______ | ______ | ______ |
| Profit sharing | ______ | ______ | ______ |
| Deferred pay | ______ | ______ | ______ |
| Other | ______ | ______ | ______ |
| 3. Savings and Investments: | | | |
| IRA/Roth IRA | ______ | ______ | ______ |
| Keogh or SEP | ______ | ______ | ______ |
| Savings account (interest) | ______ | ______ | ______ |
| Money market (interest) | ______ | ______ | ______ |
| Treasury securities (interest) | ______ | ______ | ______ |
| Mutual funds (dividends, capital gains) | | | |
| Stocks (dividends) | ______ | ______ | ______ |
| Bonds (dividends) | ______ | ______ | ______ |
| Real estate | ______ | ______ | ______ |
| Farm/business rent or installment payments | ______ | ______ | ______ |
| Home equity conversion | ______ | ______ | ______ |
| Annuities | ______ | ______ | ______ |
| Other | ______ | ______ | ______ |
| 4. Earnings: | | | |
| Salary, wages | ______ | ______ | ______ |
| Commissions, royalties, fees | ______ | ______ | ______ |
| Partnership income | ______ | ______ | ______ |

*Continued on next page*

**Worksheet 8** – *continued from previous page*

5. Income from Assets That Could Be Liquidated

| | | | |
|---|---|---|---|
| Real estate | ________ | ________ | ________ |
| Mutual funds | ________ | ________ | ________ |
| Stocks | ________ | ________ | ________ |
| Bonds | ________ | ________ | ________ |
| Antiques, collectibles | ________ | ________ | ________ |
| Farm/business | ________ | ________ | ________ |
| Anticipated gifts or inheritance | ________ | ________ | ________ |
| ESTIMATED TOTAL GROSS INCOME | ________ | ________ | ________ |

6. Possible Deductions from Income

| | | | |
|---|---|---|---|
| Federal income tax | ________ | ________ | ________ |
| State/county tax | ________ | ________ | ________ |
| Social Security tax | ________ | ________ | ________ |
| ESTIMATED TOTAL DEDUCTIONS | ________ | ________ | ________ |

**(Subtract total tax deductions from total gross income to estimate your total net income.)**

| | | | |
|---|---|---|---|
| TOTAL ESTIMATED NET INCOME | ________ | ________ | ________ |

Compare estimated income 10 years after retirement $ ________________
to estimated expenses 10 years after retirement (Worksheet 4) (calculated
at inflation rate ______% with inflation factor of ______). $ ________________

Will you have a positive balance of $ ________ extra income?

OR

A negative balance of $ ________ less income than expenses?

Adapted from *Financial Planning for Retirement*, NCR-264, Field and Hathaway, Michigan State University CES, 5/87.

The 2001 tax act dramatically increased the contribution limits for Americans investing for retirement. The law gradually raises the maximum annual IRA contribution limits for both traditional and Roth IRAs. The 2001 tax act also dramatically increased the "catch-up" amounts that older workers can contribute to their IRAs. In 2009, the contribution limit is $5,000 for each individual and $1,000 additional if you are over 50. After 2009, contribution limits will be adjusted for inflation.

IRAs are not the only retirement savings vehicles to benefit from increased contribution limits Contributions to a 401(k) plan are limited to $16,500 in 2009. The tax act also allows individuals age 50 and over to make additional "catch up" annual contributions of $5,500 to 401(k) plans and 403(b) and 457(b) plans in 2009.

The IRS has also instituted a uniform distribution table for IRA withdrawals (traditional and Roth). This table is used unless the beneficiary of your IRA is your spouse who is more than 10 years younger than you. In that case, you would use the actual joint life expectancy of you and your spouse based on a different life expectancy table.

Recent changes in the laws governing retirement plans provide opportunities to more efficiently save and manage your retirement funds. You may want to check with your financial advisers to see how these changes affect you.

Are your other savings/investments doing as well as they might? Could you earn more by making a change? Check with the people who are handling your savings and investments to see if there are any better alternatives. Are you setting aside enough for saving/investment now to assure a comfortable retirement? That may mean cutting down on current spending so you can invest the difference toward a happier retirement.

If you're hoping to start a new job in retirement for more income, what ideas do you have for this now? What can you do now to prepare for this new job, or find it? If you've built up net worth in such assets as real estate or antiques that you hope to sell later, start thinking how you could most profitably turn them into income.

## Reducing Expenses

You may feel you've estimated your retirement budget realistically, but if you don't have enough income, you'll have to cut down. What could you do now to prune future expenses? While you're still working, could you pay for needed maintenance on your house to get it into better shape? Build up a bigger fund to cover replacement of home appliances, your car, or other big items? Examine insurance to be sure you are buying only what you will need? What skills can you learn that will enable you to do some of your own home or car repairs or other jobs around the house? Check Cooperative Extension Service bulletins and other sources for ways to cut the costs of food, energy, etc.

If you're carrying a large debt load now, reduce it before retirement. Credit is a handy tool, but it can cost money that you may not be able to afford once you retire.

## Medicare and Other Health Insurance

Medicare is a federal health insurance program for people 65 and older (and some disabled persons). Medicare has three parts: Part A is hospital insurance, which someone eligible for benefits can get without charge at age 65; Part B helps cover your doctor's services and outpatient care, which eligible persons can get at age 65, but there is a monthly premium for it; and Part D, which is the prescription drug coverage.

Health care costs may be a big budget item for some older persons, so know when you are eligible for Medicare and the coverage it gives you. Get basic booklets on Medicare including *Medicare and You* from your local Social Security office or call toll-free 1-800-633-4227. Check the Medicare Web site for information (www.medicare.gov). Ask questions about anything you don't understand.

Apply for Medicare at least three months before you turn 65 to be sure you get enrolled in time. Apply even if you plan to keep working after age 65. If you wait before applying, your premiums for Part B generally will be higher unless you are covered by your employer or union. Your premium for Part B is $96.40 per month in 2009.

Medicare was never intended to cover everything. It does not pay anything toward certain items, such as routine dental care, long-term care, such as custodial care in a nursing home, routine eye care and most eyeglasses and hearing aids. See a complete list of noncovered items in the *Medicare and You* workbook available from your local Social Security office.

You pay a deductible before Medicare coverage takes over; and you must co-pay a certain part of charges above that deductible. The amounts have been adjusted frequently, so be sure to check with your Social Security office to be sure you have the most recent figures.

Even after you are enrolled in Medicare, it will be important to buy a supplementary health insurance policy, sometimes called "Medigap" insurance. These policies pay some or all of your Medicare co-payments and deductibles, and include benefits for services that Medicare doesn't cover at all. Since 1992, insurers in most states are limited to selling 10 standardized Medigap policies (labeled "A" through "J"), which provide varying levels of benefits. However, the price of premiums for the same policy can vary widely depending on the insurer. Shop carefully, comparing rates from at least three insurers. "H," "I," and "J" plans all include coverage for prescription drugs, so you would need to drop the drug benefit from your policy before enrolling in Medicare Plan D (see below). For assistance in comparing Medigap policies, call your local Agency on Aging or your state insurance department to find the nearest senior health insurance counseling service.

In 2006, Medicare started providing insurance for prescription drugs (Part D) for everyone with Medicare. Prescription drug coverage is available from insurance companies and other private companies approved by Medicare. Plans vary in costs and drugs covered. Generally, plans charge a monthly premium, have a yearly deductible, copayments or coinsurance, and a coverage gap. If you don't join a Medicare drug plan when you are first eligible and you don't have other creditable prescription drug coverage as defined by Medicare, you will pay a late enrollment penalty if you choose to enroll later. You may switch Part D providers every year. A list of the plans that are eligible to provide coverage in your state is available at www.medicare.gov.

If you retire early, you cannot get Medicare benefits before you reach 65 unless you are disabled. Before you plan retirement, see if your employer's group health insurance coverage can be continued to cover you and your spouse until age 65, even if you have to pay for coverage. An important issue if you retire before 65 is to determine if you can afford to pay for your portion of group coverage or for private coverage health insurance. If you are not allowed to continue your group coverage, see if it can be converted to a private policy that you can carry until you are covered by Medicare. Otherwise, you will need to shop around for private health insurance.

Never drop your private or employer's group health care insurance until you know you have Medicare coverage in place.

## Housing Expenses

If you own your house, your net worth statement may show that the house is the most valuable asset you have. Over the years, your house has likely appreciated in value, you have made improvements, and your equity has increased as you paid off the mortgage.

Do you want to stay in the same house after you retire? Move to another home in your community (possibly one smaller, easier and cheaper to maintain)? Or do you plan to move to another community? If you want to move, investigate carefully the pros and cons of all options. Be sure to consider the financial aspects as well as personal preferences. If you plan to stay in your same house, review Worksheet 5, "Large Future Irregular Expenses," and plan for large replacement and repair expenses that may come up in retirement. Also look at ways you can make your house and yard easier to maintain, and your house more efficient to heat and cool.

## Looking Ahead

If you find that you have fixed assets that don't change with inflation, or that you don't have enough savings and other assets that could yield income, now is the time to make changes in your retirement plans. It's never too soon to start planning and saving for retirement, because time will work for you. It's never too late to make some changes, but the longer you wait, the fewer options you may have. Can you delay retirement? Can you increase income now for a higher pension and/or more savings? Can you spend less now and save more? Can you change your savings and investments to more productive ones that would yield more income after retirement? Can you prepare for new work after retirement? Begin planning now how you want to live in retirement and how to provide enough income and other resources to do it!

## Worksheet 9 – Monthly Cost of Living Worksheet

| | | | |
|---|---|---|---|
| **Shelter** | | **Medical and Health** | |
| Rent or mortgage payments | $________ | Medications | $________ |
| Real estate taxes | $________ | Physician, dentist, hospital | $________ |
| Home insurance | $________ | Eyeglasses, hearing aids | $________ |
| | | Health insurance | $________ |
| **Household Operation and Maintenance** | | **Recreation, Education, and Other** | |
| Home repair, yard care | $________ | Books, newspapers, magazines | $________ |
| Water | $________ | Club memberships, dues | $________ |
| Telephone, TV dish/cable | $________ | Movies, sports events, concerts | $________ |
| Waste disposal | $________ | Sport and hobby equipment, supplies | $________ |
| Cleaning and laundry supplies | $________ | Vacations, celebrations, weekend trips | $________ |
| Electric | $________ | Adult continuing education | $________ |
| Gas, fuel oil | $________ | Pets: care, food, license | $________ |
| Furniture, fixtures | $________ | Other | $________ |
| Garden, yard equipment, supplies | $________ | | |
| Other | $________ | | |
| **Food, Beverages** | | **Contributions** | |
| Food at home | $________ | Church | $________ |
| Food away from home | $________ | Charities | $________ |
| Entertaining expenses | $________ | Gifts | $________ |
| **Automobile and Transportation** | | **Taxes and Insurance** | |
| Car payment | $________ | U.S. taxes | $________ |
| Repairs | $________ | State taxes | $________ |
| Gasoline and oil | $________ | Local taxes | $________ |
| License, registration | $________ | Life insurance | $________ |
| Insurance | $________ | Property insurance (not homeowners) | $________ |
| Other transportation | $________ | | |
| **Clothing** | | **Savings, Investments** | |
| New clothing | $________ | Banks, savings and loan, credit union | $________ |
| Laundry not done at home | $________ | Company pension, profit-sharing plan | $________ |
| Dry cleaning | $________ | Stocks, bonds, real estate | $________ |
| Shoe repair | $________ | Retirement: Keogh, IRA | $________ |
| **Personal** | | **Irregular Expenses** | |
| Cosmetics and toiletries | $________ | | $________ |
| Barber and beauty shops | $________ | | $________ |
| Smoking supplies, alcohol | $________ | | $________ |
| Stationery, postage | $________ | | $________ |
| **TOTAL MONTHLY EXPENSES** | | | $________ |

Adapted from *Ready, Set, Retire: Financial Planning*, PM-1167a. Danes, Dippold, Schuchardt, Iowa State University CES, 11/85 (based on information from the original *Financial Planning for Retirement*, NCR-264 by Anne Field and Irene Hathaway.

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For more information, there are many books and other materials covering various aspects of retirement planning, including financial planning. One good source of useful books and booklets is the American Association of Retired Persons (AARP). Anyone age 50 or over can join this organization; non-members may buy their materials, but members get discounted prices. The national headquarters is at 601 E Street, N.W., Washington, D.C. 20049. The URL for their home page is www.aarp.org.

## Credits


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