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THINKING AHEAD

Your Guide to Smart Retirement Planning



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INTRODUCTION

Retirement: It's nice to get out of the rat race, but you have to learn to get along with less cheese - Gene Perret

Now that quote might be humorous, but it doesn't have to be true. Most people associate retirement with much more than not working. They think that when you don't go to the office every day, you also don't get that paycheck either.

Many young people don't think that they need to plan for retirement. Heck, I'm only 40 and I don't really think about planning for retirement. But the reality is that there is no time like the present to start thinking about your future.

Unless you are near retirement age, you will no doubt procrastinate about retirement planning. It's probably impossible to expect someone in their twenties to make serious retirement plans. Even those with 15 to 20 years left before retirement might have trouble with firm financial plans.

In your twenties, your retirement plans will probably consist of a basic savings program. Retirement is many years away and your thoughts are probably more on buying a house than on retiring.

In your thirties, your thoughts might be on sending your children to college and retirement is still not that important. When you reach your forties, you begin to wonder where the years went and start to consider serious planning for when you retire.

Here, consider is the key word. If you're like most people, you consider planning but don't quite get around to it. Then all at once, you are in your fifties and realization hits. You are near retirement age and haven't given any thoughts to how you will afford to quit working and enjoy your retirement years.

OK, no matter what your age, there is hope for your retirement plan. Most employers provide a pension plan, the government provides social security, and you might have some investments and real estate. The younger you are the better, but with some serious thought, you can pull it off.

Of course, first, you'll need to commit yourself to retiring in the first place.

CHAPTER 1 – SHOULD YOU RETIRE?

Sure you like your job. But if you had the chance to retire early, say at age 50, would you sniff at it? Maybe you really like your black swivel chair. Perhaps you think your work is just too important to leave it behind. The truth is that there are other people out there who can do your job and you can get the same black swivel chair at Staples!

For most people, a 30-year career is quite enough. But is early retirement realistic for you? Let's take a look.

At age 50, the government says you've got about another 33 years to live. That's longer than your entire working career. With life expectancy increasing by leaps and bounds, you may want to think in terms of a 40-year retirement.

Besides travel, golf, fishing, and classes in paperclip art, what else is on the agenda? How much will it cost? Will you have enough to do it all? How much has to come out of each paycheck to raise that stash? Good question!

Also, you need to think about inflation. After all, peering out 20 years into the future you know that \$60K/year salary, which looks like a good annual income now, will certainly have to be larger to buy the same things in the future as it does today. So what's inflation going to be then? And not just in the first year of retirement, but the impact it will have over the 40 years after that?

More importantly, where will you live? With luck, the mortgage will be paid off so all you have to worry about is property taxes. Maybe you'll even sell out and move into a smaller place in a sunnier climate. Sure beats having to shovel snow at age 70, even if it is further away from family and friends. Besides, the kids can always come down for a visit.

You should think about insurance, too. You are probably insured under group policies through work for disability, life, and health coverage right now. In fact, your employer probably kicks in some part of or maybe even the entire premium for that insurance.

Retire, though, and you will most likely lose that coverage. What happens to your spouse if you're inconsiderate enough to die early or (heaven forbid) become permanently disabled? If required to do so, how will you pay for a major illness or hospitalization and all of the attendant physician's bills?

Forget about Social Security or Medicare. You're way too young for either of those to apply. And even if you did qualify, will the assistance be enough for a survivor and/or all the medical bills? If not, what alternatives do you have? And what about long-term care costs?

About now you may be thinking: "Hmmm, perhaps I should have a few more children to support me in my old age." Don't worry; you needn't sire enough offspring for a soccer team. Our advice? Never leave your job.

We're just kidding, of course. We're confident you can retire at a reasonably young age without having to populate the Dakotas or remain shackled to your desk. The trick is careful planning. We'll take you step-by-step through the retirement planning process.

Retirement planning entails far more than just picking an age to do so and a beachfront property to do in. It requires a hard look at your lifestyle, your resources, and a whole host of factors that we tend to take for granted while we're working. Most, but not all, deal with money issues. As planners, we must face them head on.

CHAPTER 2 – WHAT IS RETIREMENT PLANNING AND WHEN SHOULD I START

Retirement planning is the thought and commitment that you put into providing for income and a satisfactory lifestyle for your later years after you leave the work force. Most people will spend an average of 25 years in retirement so careful planning is necessary for this to be a comfortable time.

When you reach retirement age, you will probably have income from social security and possibly a pension but will that be enough? Will you continue to live in your present home or will you relocate? Do you want to travel? These and many more questions will need to be answered in your preparation for your retirement years.

Retirement planning should begin as soon as you start your first job, but most are too busy raising a family to think about something that far away.

It's awfully hard to think about retirement when you're wondering where to find the best day care for your infant. This is the time to look at your pension plan or 401(K) at work and contribute as much as you are allowed or can afford to each pay period.

As soon as you can, you should start investing a percentage of your pay for your retirement. These investments can be IRAs, mutual funds, stocks, bonds, money market, or other investment vehicles your broker might suggest. The secret is to