Your Retirement Readiness Assessment in

31 QUESTIONS

An Action Checklist to Help You Plan for Your Transition to Retirement

ICMA-RC

Building Retirement Security

1

Due Date

❑ Done

❑ NA

Have you taken the time to dream about the next phase of life? Do you understand your personal values about work, retirement, community involvement and leisure? How will retirement challenge your self-image?

During our working years, questions like these answer themselves. As our careers end we may be confronted with extraordinary choices about life's possibilities. Who will you be for the rest of your life? Retirement should be a time to make your dreams come true. The financial link to dream fulfillment is simple: fulfilling your dreams may mean budgeting for them.

Action plan: ____

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Due Date

❑ Done

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Have you established and prioritized quantifiable financial objectives? Do you have active strategies to achieve each of them?

Financial objectives are usually thought of in terms of major life events like retirement or college funding. Establishing specific objectives for other things you want to do, too, like debt reduction and saving toward a major purchase, helps you build a total financial action plan.

Your various objectives are in competition for limited money. Considering all of them at the same time challenges you to realistically prioritize them, perhaps deferring or downsizing some of what you want to achieve. Or, you may find that you are not dreaming big enough!

Start with a list of your "wants": 'Retire in two years, pay off the mortgage, get rid of the credit card debt, buy a boat.' List your five most important financial aims, including what you want long-term (such as retirement and charitable or family bequests) mid-term (such as debt reduction) and short- term

(perhaps vacation savings or a major purchase.

What I Want Financially

A. ________________________________

B. ________________________________

C. ________________________________

D. ________________________________

Next, turn these general goals into objectives by adding specific dates, dollar amounts and strategies to achieve each one:

- Pay off mortgage in 5 years by adding $400/month to each regular monthly payment.
- Establish a Roth IRA for both partners with payroll deduction or automatic checking draft of $250/month.

MY FINANCIAL OBJECTIVES

What will I achieve? By what date? How much will it take? How will I do?

A. ________________________________

B. ________________________________

C. ________________________________

D. ________________________________

Review your objectives annually and monitor your progress to see if they still reflect what you want.

Is your spending under control? Do you know where your money goes? Are you saving enough?

Seeing your objectives this way leads to a review of your spending and saving. Financial planners know the value of occasionally tracking all spending through a whole bill paying cycle. You will be creating a spending record to help you set a budget and, in addition, discover money that you can redirect to savings. Guard against the temptation to overspend in the few years just before retirement.

Action plan:

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Due Date

❑ Done

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Have you prepared an estimated retirement budget?

As you approach retirement, it is important that you have a realistic estimate of expenses that you will face. If you are within a few years of retirement, don't rely on a shortcut percentage estimate, such as 75% of your pre-retirement income. Many new retirees find that their expenses increase, at least initially.

Budgeting for an unfamiliar retirement lifestyle may be a challenging task. Developing a budget will help you begin to deal with the more difficult financial questions you will face in retirement, such as health care and travel costs. Keep revising your budget estimates as your retirement plans take shape.

Action plan:

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Due Date

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Will you have extraordinary expenses (e.g., college funding, balloon payment, Winnebago purchase)? Do you want to leave a bequest to family, charity, or others? Have you reserved assets for these purposes?

Retirement planning must be done in a framework of total lifetime financial planning. Identify specific assets earmarked for anticipated special expenses.

Action plan:

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Due Date

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What is the minimum budget expenditure amount that you need in retirement? What amount would you like to have?

How much flexibility do you have? Will you meet the minimum amount needed from assured sources (Social Security, annuities, defined benefit payments and defined contribution payments with nominal investment assumptions) for at least your joint life expectancy plus 10 years, considering expected inflation?

Distinguishing between what you need and what you want will help understand consequences of saving, investing and spending decisions.

Action plan:

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Due Date

❑ Done
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Are you taking care of your health?

Your health may not seem to be a money matter, but it deserves to be treated as such. In addition to adding to both quality and quantity of your life, good health habits cut your healthcare costs now and in the future. What good is money without health, or for that matter, health without money?

Action plan:

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Due Date

❑ Done
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Where will you live?

If you plan to move to another area, have you adequately researched the new location? Moving has obvious and far-reaching implications. Even a local move may have significant consequences. Don't rush into making major changes; you have plenty of time. Note that retiree health benefits may be impacted by a move from one area to another.

Action plan:

Do you know where your important records are?

Use ICMA-RC's Personal Financial Database to inventory your important papers (i.e., Birth certificates, marriage records, insurance policies, tax data, investment records, retirement account files . . .)

Action plan:

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Due Date

❑ Done

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Do you have a personal (family) balance sheet?

Do a balance sheet (net worth statement) every year to help track progress toward your objectives, see your total portfolio (not just one account at a time) and monitor debt load.

Action plan:

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Due Date

❑ Done

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Are you comfortable with the debt that you are carrying? Do you have a plan to reduce debt prior to retirement?

Closely monitoring the debt that you carry, and establishing a plan to pay it down, non-mortgage higher interest rate debt first, will help you realize other objectives. A suggested standard is that monthly non-mortgage debt payments should not exceed 20% of family take home pay, and should be much less than that if you are having trouble saving to meet your objectives.

On the other hand, paying off tax deductible mortgage debt early may not be the best thing that you can do with your money as you may lose an important tax deduction. It is usually better, from a financial point of view, to pay off non-mortgage debt first, maximizing tax-advantaged saving and keeping your mortgage interest deduction before paying off the mortgage.

Action plan:

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Due Date

❑ Done

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Are you appropriately invested for the next phase of your life?

The old advice may no longer apply. It is not necessary that, as you approach retirement, you must become a particularly conservative investor. However, any change of circumstances, including impending retirement, is a reason to reassess investment choices. The more money you have set aside, the greater the consequences of investment loss; but with the security of having more money, you may be willing to accept more investment volatility. It is up to you.

One strategy recognizes that, as you approach retirement, you need to protect your short-term income stream, that is, money that you will be withdrawing to spend over the next few years. For example, you may want to have an amount equal to your next 3 to 5 year's planned withdrawals from a given account invested with safety as your primary concern, keeping up with inflation but expecting little else from this income portion of your portfolio. The rest of the account, for longer-term needs, can be invested more for growth, consistent with your financial goals and tolerance for taking investment risk.

Action plan: ______________________

Due Date ______________________

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Are you taking full advantage of all tax-advantaged savings opportunities?

With new retirement legislation in place effective 1/1/2002, the final years before retirement present greater opportunities than ever to save. Deferred compensation, qualified defined contribution and IRA savings may be increased at age 50. Your deferred compensation catch-up provision is stronger than ever, and basic contribution limits are increasing for all plans, especially for deferred compensation. Don't overlook an after-tax IRA contribution. Any year you have earned income and your adjusted gross income falls below the phase out amounts (married tax payers with adjusted gross income $150k to $160k, single $95k to $110k) a Roth IRA can be an especially powerful long-term savings tool. Even if you cannot contribute to a Roth now, it may be worthwhile to make an after tax contribution to a regular IRA.

Action plan: ______________________

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How would your dependents be provided for if you die while they are dependent on your income? Have you calculated how much life insurance (if any) you and your spouse should have?

As your dependents get older and your assets increase, you probably have reduced need for life insurance. For most people, a term life policy provides the most protection for the premium dollar, but it has no cash value and gets more expensive in later years (but then you may not need it, anyway.) Visit icmarc.org and click "Insurance Services" to do a life insurance needs estimate calculation and to comparison shop for low cost term life policies*

Action plan: ______________________

* Companies not affiliated with the ICMA RETIREMENT CORPORATION provide insurance policies. ICMA Retirement Corporation does not provide specific insurance advice.

Due Date ______________________

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What would you do in case of an extended disability prior to retirement?

Even though there is a greater risk of losing earned income to disability than to death, relatively few workers have adequate disability income protection. Financial planners often recommend that 65% of your income be insured, but that percentage may need to be higher if you rely on employer-provided benefits, which would be taxed to you.

On the other hand, if your retirement savings and vested pension benefits are enough, you may need little or no disability insurance protection. Look at your employer's group benefits program to start your shopping if you need more disability protection. After full retirement, no disability coverage should be needed.

Action plan: ______________________________

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Due Date

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❑ Done

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Do you have an emergency fund?

Financial planner's standard advice for an emergency fund is to have three to six month's living expenses in easily accessible liquid savings. Don't depend on credit for an emergency fund. Retirement accounts may be accessible for major emergencies but you should avoid using them if you can. Those who face a higher risk of a significant period of unemployment should have more security.

Caution: Once set aside, this emergency money can be a spending temptation. Don't define "financial emergency" too loosely. A vacation, however badly needed, is not an emergency.

Action plan: ______________________________

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Due Date

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Are both partners completely aware of the financial situation? Do they share the same financial objectives? Are both capable of managing the family finances independently? Do both know the locations of key documents and how to reach advisors?

A division of labor naturally evolves in a marriage. One partner usually is more inclined to manage family finances than the other. Both partners need to be financially literate and be capable of managing the investments, balancing the checkbook, paying the bills, etc.

Especially for establishing and prioritizing financial objectives and setting saving priorities, partners should work together closely.

Action plan: ______________________________

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Due Date

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How will you pay for healthcare prior to age 65 when you become eligible for Medicare? Will you have employer-sponsored health plan eligibility and/or contribution toward health care costs? Have you budgeted for health insurance?

Underestimating retiree health care costs is a common retirement planning error. Medicare starts at age 65, but most people expect to retire before this age. Under Federal COBRA law, you may continue for at least 18 months in your employer's group plan, at your cost, after separation. Some employers provide support for medical premiums until age 65; a few subsidize costs beyond this age.

Action plan:

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Due Date

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What is your plan for Medigap coverage when you are on Medicare? Have you done cost comparisons and accounted for this cost in your budget?

Supplemental health coverage, even after Medicare covers you is, of course, essential. Having 10 standard Medigap plans, numbered as A through J, facilitates comparison shopping for these policies. You can compare Medigap and managed care options currently available where you plan to retire, including costs and quality measures, at medicare.gov.

Generally, you cannot be denied Medigap coverage, at standard rates regardless of pre-existing medical conditions, within 6 months after your 65th birthday. Medicare and provider plan rules change, so monitor your options closely.

Action plan:

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Due Date

- [ ] Done
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How will you pay for extended nursing home or home health care?

Nursing home costs are high and getting higher. Medicare does not cover long term care and very few retiree health care plans do, either. Unlike standardized Medigap polices, long term care insurance policies are not standardized, so pricing and benefits are dreadfully difficult to compare. Basic consumer information is available from the National Association of Insurance Commissioner's Web site naic.org.

Even if you decide to buy insurance, self-insuring for at least a portion of your long term care cost should be part of your plan, perhaps by earmarking a Roth IRA or other tax advantaged savings account, or using RC's RHS program.

Action plan:

Will you have earned income during retirement? How will you earn it? How much and for how long?

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The working retiree is today a common phenomenon. Labor economists predict a worker shortage as the "boomer" generation retires. You may have earning opportunities, but it is best not to rely too heavily on earned income during retirement. If you expect earned income, estimate conservatively.

Before your normal Social Security retirement age, there may be a $1 reduction in Social Security benefits for every $2 you earn more than $11,280 (dollar amount for 2002.) The limits change in the year you reach full retirement age, and thereafter there is no earnings limit. Your pension may also be impacted.

Action plan: ______________________

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Do you understand Social Security benefits including reduction of benefits for early retirement, possible reduction of benefits for current earnings over a limit, survivor benefit rules and the impact of a pension from work not covered?

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See www.ssa.gov. In addition to reading important information about S.S. benefits, use this site to:

- Apply for a "Social Security Statement" using your, not Social Security's, assumptions;
- Do estimated Social Security benefit calculations to see the impact of various retirement scenarios;
- Read, if you will get a pension from work not covered by Social Security, "Windfall Elimination Provision" (pub. 05-10045) and "Government Pension Offset" (pub. 05-10007);
- Apply for benefits on-line three months before you plan to receive them.

Action plan: ______________________

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Will you be vested in one or more pensions? Do you understand the formula(s)? Are there opportunities to purchase service credits, and if so, have you analyzed the cost and benefit of doing so? Are cost of living increases anticipated? If so, are they secured by law or granted ad-hoc? If secured by law, what is the formula, cap, etc?

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You must thoroughly understand your pension beyond just accepting the benefit statement. You may overlook opportunities to maximize your benefits by working beyond a birthday or anniversary date. As a test of your own understanding, try explaining the benefits formula, including cost of living increase provisions (if any) and joint and survivor options, to your partner. Purchasing defined benefit service credits may be possible under your plan. Since January 1, 2002, credits could be purchased with a portion of your deferred compensation balance. Consider this transaction carefully; it may or may not be in your best interest. Don't overlook the possibility that there may be forgotten vested benefits from employers early in your career.

Action plan: ______________________

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Due Date

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If you are married, are you prepared to select a "joint and survivor" pension option? Does your retirement plan work not only as a couple, but also for each partner as a survivor?

One of the more difficult and technical issues you may face for your pension is selecting among various options for a survivor pension, with a resulting reduction in benefits from the single pension amount, for a joint pension. It is impossible to guarantee making the "right" decision, because doing so would require you to know the dates of your and your spouse's death. Be wary of "Pension Maximization." These are schemes to take the maximum, single life pension and attempt to meet survivor needs by purchasing life insurance. These plans do not work out in practice as often as an insurance agent may suggest, after considering taxes and sales charges. This may be particularly true for public pension plans that include cost of living increases. (Source: Jane Bryant Quinn, Making the Most of your Money (1997) p. 923.)

Action plan: ______________________________

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Due Date

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What life span should you plan in retirement? Can you expect to be financially independent if you live to age 90? 100?

As your life expectancy increases, so does the possibility of out-living your resources. Planning well beyond an actuarial life expectancy helps assure late in life financial independence. With today's continuing medical advances, a recent report suggested that a woman who is age 50 this year might have a 40% chance of reaching age 100; a man of that age may have almost a 20% chance. It is important to test your financial resources to assure that they will support you in a long, active retirement without an unacceptable decline in living standards. Spending discipline, effective saving and investing for the long term are more likely with recognition of today's increasing longevity.

Action plan: ______________________________

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Due Date

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When do you plan to retire? When should you announce your plans?

Even when you are satisfied that you can retire, there are numerous questions related to timing. Are you satisfied at work? Is there something you would rather be doing? Is your spouse ready to retire, too, and to have you retire? Are there opportunities to phase out of work and phase in to something else? What about taxes and timing of benefits: Social Security, pensions, health care, and other matters are impacted by the timing of your retirement. In high-profile public positions, any discussion of retirement timing may become public, with organizational and political consequences. Once announced, retirement is difficult to "unannounce."

Action plan: ______________________________

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Have you done the basic calculation to determine what you need to be saving now to meet your retirement objectives? Are you saving that amount or more? If not, do you have a plan to increase savings to that level.

According to the 2002 Retirement Confidence Survey published by the Employee Benefits Research Institute, only 32% of workers have completed even a basic retirement savings need calculation and only a few of these can reiterate its results*. Those who have effectively done the calculation are, not surprisingly, doing a much better job of retirement planning and saving.

The ICMA RC's Charting Your Course workbook includes a simple calculator that is adequate for those who are still several years away from retirement. Those who are closer to retirement, or who have complex situations, must go beyond this basic planning tool.

Action plan: ____________________

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*Employee Benefit Research Institute (EBRI) is a nonprofit, nonpartisan organization committed exclusively to data dissemination, policy research, and education on economic security and employee benefits and is not affiliated with ICMA-RC.

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Have you had a comprehensive retirement plan prepared by a professional? Does it include a probability analysis?

Having the reassurance of a certified professional help with your retirement planning will alert you to issues and offer assurances that you are on track. Professionally assisted planning should be considered especially if you are approaching retirement with several expected income sources, if you have any financial complexity, or want a professional check-up of your own planning. Special issues, such as using an IRA prior to age 59 1/2 or a defined contribution plan before 55, make technical planning imperative. A plan should include estimates of withdrawals from qualified retirement plans, deferred compensation, IRAs, and other self-managed accounts, and consider tax consequences of such withdrawals. It is important that the plan include an estimate of your probability of success using Monte Carlo, a probability based modeling concept, or other advanced simulation technique.

ICMA-RC's team of Certified Financial Planners™* provide the VatagePlanning Premium service to:

- Estimate income required each year considering inflation, taxes and other matters;
- Include all retirement income sources and consider income options for each type of account;
- Project the future value of each of your accounts for every year of your retirement;
- Estimate each income source as part of a comprehensive retirement income plan;
- Check technical matters such as minimum required distributions and alternative minimum tax;
- Reveal special issues such as insurance, estate matters. etc;
- Forecast realistic, indexed income taxes;
- Calculate annual surpluses and shortfalls over life expectancy;
- Predict chances of your plan succeeding using a Monte Carlo probability simulation

Action plan: ____________________

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❑ Done

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** Certified Financial Planner™ is a certification mark owned by the Certified Financial Planner Board of Standards, Inc. This mark is awarded to individuals who successfully complete the CFP Board's initial and ongoing certification requirements.*

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Due Date

☐ Done
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Might your estate be subject to Federal Estate Tax? If you have an estate plan, has it been reviewed for the impact of the phase out (and possible return) of the estate tax?

Because retirement and estate planning decisions are interrelated, it is a good idea to consider estate matters at the same time that you are making retirement decisions. The Federal Estate Tax is scheduled to be phased out after 2010, but then it may be back. Even if you have a sophisticated, professionally prepared estate plan, it should be reviewed. Changing exemption amounts and tax rates during the phase out period and the possible return of the estate tax should be considered when preparing or reviewing your plan.

Action plan: ____________________

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Due Date

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Are your beneficiary designations up-to-date?

Today, it is not unusual for the greater part of financial assets in an estate to pass outside of probate, directed not by the terms of a will but by beneficiary designations made within retirement plans and IRAs. Beneficiary designations should be reviewed periodically and updated as needed. Also, don't forget your grandchildren. Frequently used beneficiary designations may not provide for grandchildren if their parent has predeceased them. Review your designations with your attorney as you prepare your will.

Action plan: ____________________

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Due Date

☐ Done
☐ NA

Is your will up to date? Was it prepared in the state of your current residence? Does it reflect your existing and anticipated circumstances?

Professional legal help is usually worthwhile in writing a will to assure that your probate estate is distributed according to your wishes. An attorney who is familiar with applicable law in your state can advise you on the desirability of setting up trusts for estate or other purposes. If you move to another state in retirement, update your will under that state's laws. Consider having a living will, too, to give instructions for your own medical care if you cannot supervise it yourself, and perhaps a durable power of attorney, to assign authority to administer your financial affairs if you are unable to do so.

Action plan: ____________________

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