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Achieving financial security for your retirement years: A Speech for CPAs to deliver to general audiences

American Institute of Certified Public Accountants. Communications Division

ACHIEVING FINANCIAL SECURITY FOR YOUR RETIREMENT YEARS

A SPEECH FOR CPAS TO DELIVER TO GENERAL AUDIENCES

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MOST OF US HAVE AN UNCANNY KNACK FOR POSTPONING THE INEVITABLE. WE KNOW WE HAVE TO SAVE MONEY FOR OUR RETIREMENT, BUT WE SIMPLY DON'T WANT TO <u>BEGIN</u> SAVING UNTIL TOMORROW, OR NEXT WEEK, OR NEXT YEAR.

IDEALLY, PLANNING FOR RETIREMENT SHOULD BE A LIFELONG ENDEAVOR. YET THE MAJORITY OF AMERICANS POSTPONE PLANNING UNTIL THE LAST MOMENT. PERHAPS WE AVOID THINKING ABOUT GROWING OLD SIMPLY BECAUSE WE DON'T WANT TO <u>BE</u> OLD. BUT LIKE IT OR NOT, OLD AGE CREEPS UP ON US BEFORE WE REALIZE IT. THEN, WE MUST SUDDENLY FACE WHAT WE PUT OFF 20 OR 30 YEARS AGO--AND THOSE WHO ARE NOT PREPARED INDEED HAVE REASON TO WORRY.

CONSIDER THESE STATISTICS. ONLY <u>FIVE</u> PERCENT OF ALL AMERICANS ARE FINANCIALLY INDEPENDENT AT AGE 65, ACCORDING TO THE U.S. DEPARTMENT OF COMMERCE. THE DEPARTMENT ALSO FOUND THAT 75 PERCENT OF ALL RETIREES HAVE TO DEPEND ON FAMILY, FRIENDS, AND SOCIAL SECURITY AS THEIR ONLY SOURCE OF INCOME. FURTHERMORE, THIS STUDY SHOWED THAT AFTER ALL THOSE YEARS OF WORKING, APPROXIMATELY ONE-QUARTER OF YOU WILL BE FORCED TO CONTINUE WORKING BEYOND RETIREMENT JUST TO MAKE ENDS MEET.

THOSE OF YOU BORN DURING THE BABY BOOM ERA HAVE EVEN MORE CAUSE FOR CONCERN. THE 75 MILLION AMERICANS BORN BETWEEN THE YEARS 1946 AND 1964--THE BABY BOOM ERA--WILL HAVE MUCH FEWER WORKING

COUNTERPARTS THAN THOSE RETIRED TODAY. WHEN THE FIRST GENERATION OF BABY BOOMERS RETIRES IN THE YEAR 2010, THERE WILL BE ABOUT 10 MILLION MORE RETIRED PERSONS THAN THERE ARE TODAY. WHEN THE LAST GENERATION OF BOOMERS RETIRES IN 2030, THERE WILL BE ABOUT 35 MILLION MORE RETIREES THAN THERE ARE TODAY.

WITH MORE THAN ONE-FIFTH OF THE POPULATION RETIRED AT THE SAME TIME, THE STANDARD OF LIVING FOR RETIREES MIGHT GET WORSE. IT MAY NO LONGER BE POSSIBLE FOR EACH NEW WORKING GENERATION TO TAKE CARE OF THE PRECEDING ONE THROUGH SOCIAL SECURITY. THIS MEANS THAT MANY OF YOU MAY END UP FACING FINANCIAL DIFFICULTIES IN YOUR RETIREMENT YEARS, ESPECIALLY IF YOU WANT TO MAINTAIN YOUR CURRENT LIFESTYLE.

NEVERTHELESS, WE CAN REDUCE THE SEVERITY OF THIS PROBLEM BY EARLY RETIREMENT PLANNING. TODAY, WE WILL EXPLORE JUST WHAT RETIREMENT PLANNING MEANS. WE'LL TAKE A LOOK AT THE VARIOUS FACTORS WHICH INFLUENCE YOUR DECISION ON WHEN TO RETIRE. THEN, WE WILL DISCUSS HOW MUCH MONEY YOU MAY NEED FOR YOUR RETIREMENT YEARS. FINALLY, WE'LL TAKE A DETAILED LOOK AT THE DIFFERENT SOURCES OF RETIREMENT INCOME.

THE FIRST STEP TO PLANNING FOR YOUR RETIREMENT IS DECIDING WHEN YOU WANT TO RETIRE. MANY DIFFERENT FACTORS--PERSONAL, LEGAL, AND FINANCIAL IN NATURE--WILL INFLUENCE YOUR DECISION. ONE CONSIDERATION IN DECIDING WHEN TO RETIRE IS LIFE EXPECTANCIES. CURRENTLY, THE AVERAGE LIFE EXPECTANCY IS NEARLY 80. HOWEVER, BECAUSE OF ADVANCED TECHNOLOGY, THE CENSUS BUREAU EXPECTS THE

PERCENTAGES OF THOSE AGE 85 OR OLDER TO DOUBLE WITHIN APPROXIMATELY 40 YEARS. THIS DRASTIC INCREASE MEANS MANY MORE PEOPLE WILL NEED RETIREMENT INCOME FOR POSSIBLY 20 TO 30 YEARS.

FEDERAL LAW PLAYS A MAJOR ROLE ON RETIREMENT AGE AS WELL. FOR THE LAST FEW YEARS, MANDATORY RETIREMENT IN MOST FIELDS HAS BEEN PROHIBITED BEFORE AGE 70. IN ANY CASE, YOU CAN STILL RECEIVE FULL SOCIAL SECURITY RETIREMENT BENEFITS UPON TURNING AGE 65 AS LONG AS YOU WERE BORN IN OR BEFORE THE YEAR 1937. IF SO, YOU HAVE THREE OPTIONS:

- RETIRE BETWEEN 62 AND 65 ON A REDUCED BENEFIT;
- RETIRE AT 65 ON A FULL BENEFIT;
- CONTINUE WORKING AND GET A BONUS FOR EACH YEAR OF WORK PAST YOUR 65TH BIRTHDAY UP TO AGE 70.

THE LAW WAS CHANGED IN 1983 TO SLOWLY RAISE THE AGE AT WHICH WORKERS CAN RETIRE TO 67 YEARS OLD. THUS, IF YOU WERE BORN BETWEEN THE YEARS 1938 AND 1960, THE AGE AT WHICH YOU CAN RETIRE WITH FULL BENEFITS GRADUALLY RISES EVERY YEAR UNTIL IT HITS AGE 67. THOSE BORN AFTER 1960 CAN RETIRE WITH FULL SOCIAL SECURITY BENEFITS AT AGE 67.

ANOTHER FACTOR WHICH WILL INFLUENCE YOUR DECISION ON WHEN TO RETIRE IS YOUR EMPLOYER'S PENSION PLAN. THE IMPORTANT THING TO KEEP IN MIND HERE IS THAT THE BENEFIT MAY BE SIGNIFICANTLY REDUCED, OR COMPLETELY ELIMINATED, IF YOU ARE NOT WITH THE COMPANY LONG ENOUGH TO BE ENTITLED TO YOUR FULL BENEFITS--OR WHAT'S KNOWN AS FULLY VESTED. SO, IF YOUR EMPLOYER'S PENSION

PLAN SPECIFIES THAT YOU MUST BE WITH THE COMPANY SEVEN YEARS BEFORE YOU BECOME FULLY VESTED AND YOU'VE ONLY BEEN WITH THE COMPANY FOR FIVE, IT MAY BE WORTHWHILE FOR YOU TO STICK AROUND ANOTHER TWO YEARS. YOU MAY ONLY BE PARTIALLY VESTED IN FIVE YEARS, AND THUS ONLY ENTITLED TO A PORTION OF YOUR ACCRUED BENEFIT.

AFTER DECIDING WHEN TO RETIRE, YOU CAN BEGIN ESTIMATING HOW MUCH MONEY YOU'LL ACTUALLY NEED FOR EACH YEAR OF RETIREMENT. THE TOTAL AMOUNT YOU WILL NEED ULTIMATELY DEPENDS ON THREE FACTORS--NAMELY, THE NUMBER OF YEARS YOU PLAN TO BE RETIRED; THE LIFESTYLE YOU WOULD LIKE DURING THOSE YEARS; AND THE RATE OF INFLATION BETWEEN NOW AND THE DAY YOU RETIRE.

HOW MUCH YOU'LL NEED FOR RETIREMENT IS MUCH EASIER TO ESTIMATE IF YOU'RE CLOSER TO RETIREMENT, BUT IT IS IMPORTANT TO GET A ROUGH ESTIMATE EVEN IF YOU'RE 20 OR 30 YEARS AWAY. FOR THE AVERAGE PERSON, A COMFORTABLE POST-RETIREMENT INCOME AMOUNTS TO AT LEAST TWO-THIRDS OF THEIR INCOME BEFORE RETIREMENT. EVEN SO, THREE-QUARTERS PROVIDES A MORE COMFORTABLE MARGIN, TAKING INFLATION INTO CONSIDERATION.

A GOOD RULE OF THUMB IS TO ASSUME THAT YOU ARE PRESENTLY AT RETIREMENT AGE. USING YOUR CURRENT BUDGET AS A STARTING POINT, WRITE DOWN EXPENSES IN EVERY CATEGORY THAT IS APPROPRIATE TO YOUR LIFESTYLE. THEN DETERMINE HOW THOSE EXPENSES WILL CHANGE WITH RETIREMENT. FOR EXAMPLE:

- WORK-RELATED EXPENSES--LUNCHES OUT, CLOTHING, TRANSPORTATION, WORK FUNCTIONS AND ANY OTHERS YOU CAN THINK OF--WILL BE ELIMINATED.
- YOU WILL SPEND LESS ON TAXES SINCE SOME OF YOUR INCOME IS TAX-FREE (INCLUDING AT LEAST HALF OF YOUR SOCIAL SECURITY), AND THE REST IS TAXED AT A LOWER RATE.
- HOPEFULLY, YOUR MORTGAGE WILL BE PAID OFF, SO YOUR HOUSING COST WILL BE LESS.

HOWEVER, YOU MAY INCUR ADDITIONAL COSTS FOR HEALTH CARE, UNLESS YOU MANAGE TO CONTINUE MAINTAINING YOUR PRESENT HEALTH INSURANCE. ALSO, SINCE YOU WILL HAVE MORE FREE TIME, YOU MAY NEED MORE MONEY TO PURSUE A HOBBY, TRAVEL, OR ENTERTAIN FAMILY AND FRIENDS.

WHETHER YOUR LIFESTYLE EXPENSES WILL INCREASE OR DECREASE IS PARTLY UP TO YOU. EITHER WAY, IT IS CRUCIAL TO FORECAST YOUR EXPENDITURES AS REALISTICALLY AND AS ACCURATELY AS POSSIBLE. THAT IS, IF YOU WANT YOUR RETIREMENT BUDGET TO BE OF ANY USE.

A FEW POINTS NEED TO BE MADE REGARDING INFLATION SINCE IT HAS A MAJOR IMPACT ON HOW MUCH MONEY YOU WILL NEED. ANYONE LIVING ON A FIXED INCOME MUST GIVE SERIOUS THOUGHT TO THE DECREASING VALUE OF THE DOLLAR. TO BE SAFE, MOST EXPERTS RECOMMEND ASSUMING A FOUR TO SEVEN PERCENT ANNUAL INFLATION RATE FACTOR. ECONOMISTS FEEL THIS LEVEL IS A REASONABLE ESTIMATE FOR THE NEXT 10 TO 20 YEARS. AT ANY RATE, IT IS ADVISABLE TO PERIODICALLY RECALCULATE HOW MUCH YOU WILL NEED AS YOU GET CLOSER TO RETIREMENT.

NOW YOU HAVE SOME IDEA OF WHAT'S INVOLVED IN FIGURING OUT HOW MUCH MONEY YOU WILL NEED TO RETIRE. THE NEXT STEP IS TO DETERMINE THE AMOUNT OF SAVINGS YOU WILL HAVE ACCUMULATED AT RETIREMENT, AND WHAT YOUR ANTICIPATED INCOME WILL BE. THIS MEANS NOT ONLY ADDING UP YOUR SOURCES OF RETIREMENT INCOME (AND YOUR SPOUSE'S), BUT FULLY UNDERSTANDING THEM AS WELL.

WE WILL TAKE A DETAILED LOOK AT THESE SOURCES INDIVIDUALLY, EXPLORING SOME OF THEIR ADVANTAGES AND/OR DISADVANTAGES. IF ANYONE HAS QUESTIONS, PLEASE JOT THEM DOWN AND I'LL BE HAPPY TO ANSWER THEM AT THE END OF THE PRESENTATION.

THERE ARE FOUR MAIN SOURCES OF RETIREMENT INCOME TO TAKE INTO ACCOUNT. THESE ARE:

- ONE--SOCIAL SECURITY
- TWO--EMPLOYER PENSION PLANS
- THREE--PERSONAL RETIREMENT SAVINGS ACCOUNTS, SUCH AS IRAS, 401(K) AND KEOGH PLANS, AND
- FOUR--YOUR OWN INVESTMENT HOLDINGS, SUCH AS ANNUITIES, MUNICIPAL BONDS, AND EE SAVINGS BONDS.

LET'S START WITH SOCIAL SECURITY, OR THE DEDUCTION THAT APPEARS ON YOUR PAYCHECK AS FICA. SOCIAL SECURITY IS A FEDERAL GOVERNMENT INSURANCE PROGRAM FOR YOU AND YOUR FAMILY WHEN YOU RETIRE, BECOME SEVERELY DISABLED, OR DIE. THE SYSTEM WAS NEVER INTENDED TO SECURE FINANCIAL INDEPENDENCE AT RETIREMENT BY ITSELF. RATHER, IT IS THE FOUNDATION ON WHICH ADDITIONAL RETIREMENT PLANS CAN BE BUILT. YET, THE U.S. DEPARTMENT OF

HEALTH AND HUMAN SERVICES TRAGICALLY REPORTS THAT 60 PERCENT OF THE POPULATION OVER 65 WOULD HAVE INCOMES BELOW THE POVERTY LEVEL IF THEY DID NOT RECEIVE SOCIAL SECURITY.

BASICALLY, SOCIAL SECURITY WORKS BY TAXING THOSE CURRENTLY WORKING TO FUND THE BENEFITS OF THOSE CURRENTLY RETIRED. BENEFITS ARE BASED ON YOUR AVERAGE LIFETIME EARNINGS ON WHICH YOU PAID SOCIAL SECURITY TAXES. SO, THE MORE YOU EARN, THE MORE YOU COLLECT. THE AMOUNT OF YOUR MONTHLY CHECK ALSO DEPENDS ON HOW OLD YOU ARE AND WHEN YOU APPLY. WHEN FIGURING YOUR AVERAGE LIFETIME EARNINGS, DON'T COUNT THE LOWEST FIVE YEARS OF ANNUAL EARNINGS. ALSO, KEEP IN MIND THAT EARNINGS ARE ADJUSTED TO REFLECT WAGE LEVELS OVER YOUR WORKING CAREER.

THE SOCIAL SECURITY ADMINISTRATION MAINTAINS AN EARNINGS REPORT ON EVERY PERSON WHO HAS A SOCIAL SECURITY NUMBER. THIS RECORD CONTAINS THE AMOUNT OF SOCIAL SECURITY TAXES YOU HAVE PAID AS WELL AS HOW MUCH YOU'VE EARNED. I RECOMMEND THAT YOU CONTACT YOUR LOCAL SOCIAL SECURITY OFFICE EVERY THREE YEARS TO RECEIVE A RECORD OF YOUR EARNINGS. SIMPLY ASK FOR THE FORM YOU NEED TO FILL OUT IN ORDER TO RECEIVE A COPY OF YOUR EARNINGS AND TAX RECORD. IF YOU FIND THAT SOME OF YOUR EARNINGS ARE NOT CREDITED TO YOU, CONTACT YOUR LOCAL SOCIAL SECURITY OFFICE IMMEDIATELY! IN MOST CASES, THERE IS A TIME LIMIT OF THREE YEARS AFTER THE WAGES WERE PAID FOR CORRECTING MISTAKES.

FOR THOSE OF YOU WHO OUTLIVE YOUR SPOUSE, YOU MAY BE ABLE TO COUNT ON SURVIVOR BENEFITS TO SUPPLEMENT YOUR RETIREMENT INCOME. BESIDES RETIREES, THE SURVIVORS OF DECEASED WORKERS

ARE THE SECOND LARGEST GROUP OF SOCIAL SECURITY RECIPIENTS. TO BE ELIGIBLE FOR SURVIVOR BENEFITS, YOU MUST BE A WIDOW OR WIDOWER WHO IS AGE 60 OR OLDER; AGE 50 AND DISABLED; OR ANY AGE AND CARING FOR A CHILD WHO IS UNDER 16 OR PERMANENTLY DISABLED. IF YOU ARE DIVORCED, YOU MAY STILL BE ELIGIBLE FOR SURVIVORS' BENEFITS, AS LONG AS YOU WERE MARRIED TO THE DECEASED FOR AT LEAST TEN YEARS.

TO BE FULLY AWARE OF YOUR FUTURE SOCIAL SECURITY INCOME, ASK YOUR LOCAL SOCIAL SECURITY OFFICE FOR AN ESTIMATE OF THE BENEFIT YOU WILL RECEIVE AT RETIREMENT. YOU SHOULD DO THIS WHEN YOU ARE WITHIN A FEW YEARS OF RETIREMENT IN ORDER TO RECEIVE THE MOST ACCURATE ESTIMATE POSSIBLE.

ANOTHER KEY SOURCE OF RETIREMENT INCOME IS YOUR EMPLOYER'S PENSION PLAN. PENSIONS ARE PART OF THE FRINGE BENEFIT PACKAGE OFFERED TO EMPLOYEES BY MOST COMPANIES. BE AWARE THAT PROVISIONS VARY FROM PLAN TO PLAN. YOU SHOULD KNOW AND FULLY UNDERSTAND YOUR OWN PENSION PLAN. LET'S DISCUSS WHAT YOU NEED TO KNOW TO MAKE THE MOST OF YOUR COMPANY'S RETIREMENT PLAN.

FIRST YOU SHOULD BE AWARE OF THE NEW RULES FOR RETIREMENT PLANS. BASICALLY, THESE RULES SHORTEN THE TIME IT TAKES FOR AN EMPLOYEE TO BECOME FULLY VESTED. PLANS MUST ADOPT EITHER A FIVE-YEAR "CLIFF" VESTING SCHEDULE, OR A SEVEN-YEAR "GRADUATED" VESTING SCHEDULE BEGINNING WITH 1989. WITH THE "CLIFF" PLAN, YOU BECOME IMMEDIATELY VESTED IN FIVE YEARS. WITH THE "GRADUATED" PLAN, YOU GRADUALLY BECOME VESTED OVER SEVEN YEARS, AT WHICH POINT YOU ARE FULLY VESTED.

ONE THING THAT ALL PLANS HAVE IN COMMON IS THAT THEY ARE "TAX ADVANTAGED." THIS MEANS YOU PAY NO TAXES ON THE CONTRIBUTIONS YOUR EMPLOYER MAKES IN YOUR NAME UNTIL YOU WITHDRAW THE MONEY. ALSO, INTEREST EARNED ON THE AMOUNT CONTRIBUTED TO YOUR PLAN WILL ACCUMULATE TAX-DEFERRED UNTIL YOU BEGIN TO COLLECT YOUR PENSION, WHICH IS USUALLY AT RETIREMENT. THOSE OF YOU THINKING ABOUT WITHDRAWING EARLY, THINK AGAIN. TAX LAW IMPOSES A 10 PERCENT PENALTY ON EARLY WITHDRAWALS BEFORE AGE 59 AND ONE-HALF. IN ADDITION, THE AMOUNT YOU WITHDRAW MIGHT BE SUBJECT TO INCOME TAX.

PENSION PLANS COME IN TWO TYPES. ONE IS A DEFINED BENEFIT PLAN. UNDER THIS TYPE, YOU RECEIVE A SPECIFIED SUM EVERY YEAR AFTER RETIREMENT--NO MATTER WHAT THE CONTRIBUTIONS OR HOW MUCH THEY EARNED. THE OTHER TYPE IS A DEFINED CONTRIBUTION PLAN. HERE YOUR EMPLOYER PUTS A SPECIFIC AMOUNT OF MONEY IN A SEPARATE ACCOUNT IN YOUR NAME. THE PENSION YOU RECEIVE WHEN YOU RETIRE IS BASED ON HOW MUCH WAS SET ASIDE ON YOUR BEHALF, AND HOW WELL THAT MONEY WAS INVESTED BY THE COMPANY. PROFIT-SHARING IS A DEFINED CONTRIBUTION PLAN.

IF YOU'VE MOVED FROM JOB TO JOB, YOUR PENSION MAY BE TOO LOW TO LIVE ON, OR YOU MAY NOT GET ANY AT ALL. SHREWD PLANNERS WILL SAFEGUARD THEMSELVES BY FUNDING SOME OF THEIR OWN RETIREMENT INCOME. ACCORDING TO THE SOCIAL SECURITY ADMINISTRATION, PENSION AND SOCIAL SECURITY BENEFITS COMBINED PROVIDE ONLY ABOUT 40% OF AN ANNUAL RETIREMENT INCOME OF $20,000 OR MORE. THE BALANCE WILL HAVE TO COME FROM OTHER SOURCES. UNDOUBTEDLY,

YOU WILL NEED INCOME FROM PERSONAL RETIREMENT SAVINGS ACCOUNTS TO SUPPLEMENT YOUR PENSION AND SOCIAL SECURITY BENEFITS.

PERSONAL RETIREMENT PLANS INCLUDE IRAS AND KEOGH ACCOUNTS. AS DEFINED BY THE IRS, THEY ARE "QUALIFIED" RETIREMENT PLANS WITH SUPERIOR TAX BENEFITS. HOWEVER, THE AMOUNTS THAT MAY BE CONTRIBUTED TO THEM ARE LIMITED BY LAW.

INVESTING IN INDIVIDUAL RETIREMENT ACCOUNTS, OR IRAS, IS ENTICING AS LONG AS YOU ARE <u>NOT</u> COVERED BY ANY OTHER EMPLOYER-SPONSORED RETIREMENT PLANS. IF SUCH IS THE CASE, YOU MAY WRITE OFF IRA CONTRIBUTIONS OF UP TO $2,000 PER YEAR. THAT AMOUNT GOES UP TO $2,250 IF YOU HAVE A NON-WORKING SPOUSE. IF YOU <u>ARE</u> COVERED BY A COMPANY-SPONSORED PLAN, YOU MAY STILL CONTRIBUTE $2,000 TO YOUR IRA, BUT THE IRS MAY LIMIT OR NOT ALLOW ANY DEDUCTIONS, DEPENDING ON YOUR ADJUSTED GROSS INCOME.

IF YOU ARE MARRIED (AND LIVE TOGETHER) AND ONE OF YOU IS COVERED BY A QUALIFIED PENSION PLAN, THE IRS TREATS YOU AS IF YOU BOTH PARTICIPATED IN THE PLAN--EVEN IF YOU FILE SEPARATELY. WHETHER OR NOT YOU MAY DEDUCT A CONTRIBUTION WILL THEN DEPEND ON YOUR ADJUSTED GROSS INCOME FOR THE YEAR.

THERE ARE STILL BENEFITS TO IRAS EVEN IF YOU CAN'T DEDUCT CONTRIBUTIONS. YOU HAVE FULL CONTROL. YOU DECIDE HOW MUCH MONEY YOU WANT TO CONTRIBUTE, WHERE TO INVEST, AND HOW YOU WANT

TO INVEST YOUR IRA DOLLARS. THE LAW PERMITS ALMOST COMPLETE FREEDOM IN INVESTING IRA FUNDS. COLLECTIBLES, SUCH AS ART OBJECTS, COINS, OR STAMPS, ARE AMONG THE EXCEPTIONS. BUT FOR THE MOST PART, YOU HAVE THE ENTIRE SCOPE OF REGULAR INVESTMENT VEHICLES, SUCH AS CDs OR MUTUAL FUNDS, TO CHOOSE FROM.

EVEN IF YOU DON'T QUALIFY FOR DEDUCTIBLE CONTRIBUTIONS, YOU MIGHT STILL WANT TO INVEST IN IRAs PRIMARILY BECAUSE EARNINGS ON THE FUNDS YOU CONTRIBUTE BUILD UP AT A MUCH FASTER TAX-DEFERRED RATE THAN EARNINGS ON REGULAR TAXABLE INVESTMENTS. IN OTHER WORDS, YOU DEFER TAXES ON OTHERWISE TAXABLE INCOME. ON THE OTHER HAND, KEEP IN MIND THAT IF YOU WITHDRAW YOUR MONEY BEFORE AGE 59 AND ONE-HALF, YOU WILL HAVE TO PAY A PENALTY OF 10 PERCENT ON YOUR WITHDRAWAL.

AS AN ALTERNATIVE TO AN IRA, IF YOUR COMPANY HAS A 401(K) RETIREMENT PLAN, BY ALL MEANS ENROLL YOURSELF! WHY? BECAUSE WHATEVER AMOUNT YOU CONTRIBUTE TO A 401(K) IS TAKEN OFF YOUR TAXABLE INCOME. FOR INSTANCE, IF YOU MADE $30,000 THIS YEAR AND CONTRIBUTED $4,000 TO A 401(K), YOU NEED ONLY REPORT $26,000 ON YOUR INCOME TAX RETURN. THE MAXIMUM AMOUNT YOU CAN CONTRIBUTE TO A 401(K) IS ADJUSTED ANNUALLY FOR INFLATION. IN 1988, THIS FIGURE WAS UP TO $7,313. ANY INTEREST AND DIVIDENDS YOU EARN ON YOUR CONTRIBUTION IS TAX-DEFERRED UNTIL YOU TAKE IT OUT. IN ADDITION, MANY COMPANIES MAY MATCH ALL OR AT LEAST SOME OF THE AMOUNT YOU PUT INTO THE ACCOUNT.

ONE OPTION FOR THOSE SELF-EMPLOYED IS ESTABLISHING A KEOGH RETIREMENT PLAN. KEOGH PLANS ARE SPECIFICALLY FOR BUSINESS

PEOPLE AND PROFESSIONALS WHO WORK FOR THEMSELVES. FOR EXAMPLE, DOCTORS, LAWYERS, ARCHITECTS, WRITERS, OR ANYONE WHO REPORTS EARNINGS FROM SELF-EMPLOYMENT, MAY PUT MONEY AWAY IN A KEOGH. CONTRIBUTIONS TO KEOGH PLANS ARE DEDUCTIBLE, AND EARNINGS ACCUMULATE TAX-DEFERRED. THUS YOU REDUCE YOUR TAX BILL WHILE BUILDING YOUR RETIREMENT NEST EGG.

KEOGH PLANS ARE VERY SIMILAR TO CORPORATE RETIREMENT PLANS. THEY COME IN TWO TYPES: DEFINED-CONTRIBUTION PLANS, AND DEFINED-BENEFIT PLANS. IN A DEFINED-CONTRIBUTION PLAN, YOU MAY CONTRIBUTE UP TO APPROXIMATELY 20 PERCENT OF YOUR NET SELF-EMPLOYMENT EARNINGS. IN A DEFINED-BENEFIT PLAN, THE AMOUNT OF YOUR CONTRIBUTION DEPENDS ON YOUR AGE AND THE AMOUNT OF YEARS TO RETIREMENT. THOUGH KEOGHS ALLOW YOU TO PUT AWAY FAR MORE EACH YEAR THAN IRAS DO, YOU MIGHT BE BETTER OFF WITH AN IRA IF YOUR SELF-EMPLOYMENT INCOME IS SMALL. THE REASON FOR THIS IS SIMPLY BECAUSE IRAS ALLOW YOU TO DEDUCT 100 PERCENT OF YOUR EARNED INCOME UP TO $2,000. WITH KEOGHS, YOU MAY ONLY BE ABLE TO DEDUCT A SMALLER PORTION.

KEOGH MONEY MAY BE USED TO PURCHASE STOCKS, BONDS, MUTUAL FUNDS, OR ANY OTHER REGULAR INVESTMENT VEHICLE. LIKE IRAS, YOU ARE RESTRICTED FROM INVESTING IN COLLECTIBLES. ALSO, IF YOU WITHDRAW FUNDS BEFORE AGE 59 AND ONE-HALF, YOU MUST PAY A 10 PERCENT PENALTY ON THE AMOUNT. ASIDE FROM THESE RESTRAINTS, YOU HAVE ALMOST COMPLETE CONTROL OVER YOUR KEOGH PLAN.

YOUR OWN INVESTMENT HOLDINGS SHOULD MAKE UP PART OF YOUR RETIREMENT INCOME ALONG WITH SOCIAL SECURITY, PENSION PLANS,

AND PERSONAL RETIREMENT SAVINGS ACCOUNTS. ESPECIALLY IF YOU WANT TO MAINTAIN YOUR PRESENT LIFESTYLE, TAKE THAT MUCH-DESERVED VACATION, OR EVEN CONTINUE DOING SIMPLE THINGS--LIKE BUYING GIFTS FOR YOUR GRANDCHILDREN. REMEMBER TO SELECT OPTIONS THAT REDUCE YOUR TAX BILL, AND ALLOW YOU TO ACCUMULATE SAVINGS WITH INTEREST TAX-DEFERRED. IF YOU INVEST IN LOW-RISK VEHICLES, YOU NORMALLY WON'T GO WRONG. SOME LOW-RISK INVESTMENT VEHICLES TO CHOOSE FROM INCLUDE ANNUITIES, MUNICIPAL BONDS, EE SAVINGS BONDS, AND CERTAIN LIFE INSURANCE POLICIES.

AN ANNUITY IS AN INVESTMENT THAT IS DESIGNED TO GUARANTEE FIXED PAYMENTS DURING RETIREMENT. YOU MIGHT WANT TO OPT FOR A JOINT AND SURVIVOR ANNUITY SINCE YOU GET RETIREMENT INCOME FOR AS LONG AS EITHER YOU OR YOUR SPOUSE LIVES.

MUNICIPAL BONDS CAN BE PURCHASED INDIVIDUALLY OR IN A MUNICIPAL BOND FUND. THE ADVANTAGE TO THESE BONDS IS THAT THE INTEREST THEY PAY IS EXEMPT FROM FEDERAL TAX. IF YOU BUY MUNICIPAL BONDS ISSUED BY YOUR HOME STATE, YOU CAN ALSO AVOID STATE AND MOST LOCAL TAXES AS WELL.

EE SAVINGS BONDS ARE THE SAFEST INVESTMENTS. YOUR YIELD IS GUARANTEED TO BE AT LEAST SIX PERCENT IF YOU HOLD ONTO THE BOND FOR AT LEAST FIVE YEARS. INTEREST IS PAID WHEN YOU CASH THE BOND IN AND IS EXEMPT FROM STATE AND LOCAL INCOME TAXES. ALSO, FEDERAL TAXES CAN BE DEFERRED UNTIL THE BOND IS REDEEMED.

YOU SHOULD DEFINITELY INVESTIGATE DIFFERENT OPTIONS ON YOUR OWN TO DECIDE WHICH ARE BEST FOR YOU. NO TWO SITUATIONS ARE ALIKE. TAKE A CLOSE LOOK AT YOUR PERSONAL FINANCIAL PROFILE. REVIEW YOUR INVESTMENTS, INSURANCE, CREDIT RATING, HOUSING SITUATION, AND INCOME TO DETERMINE WHAT'S MISSING. THEN EVALUATE ALL OPTIONS AND INVEST ACCORDINGLY.

REMEMBER THAT SOME COMBINATION OF **ALL FOUR** MAJOR SOURCES OF RETIREMENT INCOME IS ESSENTIAL FOR A SECURE AND COMFORTABLE RETIREMENT. I CANNOT STRESS THIS ENOUGH. YOU MUST BE ABLE TO COUNT ON SOCIAL SECURITY, EMPLOYER PENSIONS, PERSONAL RETIREMENT SAVINGS ACCOUNTS AND YOUR OWN INVESTMENT HOLDINGS AS WELL.

IN CONCLUSION, SET A RETIREMENT GOAL. THINK ABOUT WHAT YOU REALLY WANT TO DO AND HOW YOU WANT TO LIVE DURING YOUR RETIREMENT YEARS. THEN START PLANNING TO ACHIEVE THAT GOAL. MAKE THE RESOLUTION TO BEGIN SAVING <u>TODAY</u>. WHILE AT THE HEIGHT OF YOUR EARNING POWER, INVEST YOUR MONEY WISELY AND YOU WILL NO DOUBT ENJOY YOUR RETIREMENT. REMEMBER, TIME IS OF THE ESSENCE. EARLY PLANNING IS ESSENTIAL TO A SUCCESSFUL RETIREMENT. HOWEVER, FOR THOSE OF YOU WHO HAVE ALREADY RETIRED OR ARE VERY CLOSE TO IT, IT'S NEVER TOO LATE. A PLAN STARTED LATER IN LIFE IS BETTER THAN NO PLAN AT ALL.

NOW I WOULD BE HAPPY TO TAKE ANY QUESTIONS YOU MIGHT HAVE.

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