

INTRODUCTION TO RETIREMENT PLANNING (352-1)

Obj 1-1. THE SIX KEY COMPONENTS OF THE RETIREMENT PLANNING PROCESS:

1. **Retirement alternatives**--will be discussed in Obj 1-2.
2. **The focus of retirement planning**--involves recognizing and minimizing the threats to emotional and financial security in later life. Effective retirement planning spans the client's life cycle.
3. **The retirement planning environment**--will be discussed in Obj 1-2.
4. **The six steps in the retirement planning process**--will be discussed in Obj 1-3.
5. **The five phases of retirement planning**--will be discussed in Obj 1-3.
6. **Client concerns during retirement planning--include** Social Security, employer pensions, IRAs, wealth accumulation, investment strategies, annuities, distributions from qualified plans, housing, insurance for retirement, Medicare, *and* coordination with estate planning. Those issues will be discussed in subsequent assignments.

Obj 1-2. **RETIREMENT ALTERNATIVES** can include any combination of responsibility-free living, care giving for a loved one, *and/or* a less demanding second career.

There is no standard definition of retirement because each client faces a unique combination of variables, lifestyle choices, circumstances, goals, and expectations.

THE RETIREMENT PLANNING ENVIRONMENT

1. **The graying of America**--Currently, 13% of Americans are over age 65. By 2040, about 21% of Americans will be over age 60.
2. **Retirement longevity--Active life expectancy** (the number of years a person can expect to live without a disability) is increasing as seniors live longer, healthier lives. One in nine **baby boomers** (people born between 1946 and 1964) will live to age 90. Projections indicate that by 2050, the number of 85-year-olds will have increased four-fold and the number of centenarians (over age 100) will have increased sixteen-fold. Scientists believe the **life span** (maximum potential age of humans) is about 120 years.
3. **The need for caregiving**--Women constitute about 72% of family caregivers in these US. Almost 90% of baby boomers list caring for their parents as one of their top three life priorities.

Obj 1-3. THE SIX STEPS IN THE RETIREMENT PLANNING PROCESS:

1. **Establish a good client-planner relationship**--Build a relationship with the client. Explain the services provided, the planning process, and documents required from the client.
2. **Gather data and determine the client's goals**--Listen to the client's goals and expectations. Identify the client's assets and liabilities. Gather documents, including wills and trusts, long-term care policies, Social Security statements, employer health benefit policies, summary plan descriptions, and benefit statements.
3. **Analyze and evaluate the client's financial status**--Evaluate strengths and weaknesses in the client's current financial position relative to the client's ability to attain his goals. Revise goals if needed.
4. **Develop and present a retirement plan**--Design a detailed, client-specific plan with alternative methods for meeting the client's goals. Consult with outside professionals as needed. Present the plan and review it with the client.
5. **Implement the retirement plan**--Motivate and help the client implement the recommendations. Use outside professionals as needed. Consider using a **geriatric care manager** (social services professional who coordinates care plans for older clients).
6. **Monitor the retirement plan**--Evaluate the plan's performance. Review changes in laws, economic conditions, and the client's circumstances. Recommend any needed changes.

THE FIVE LIFECYCLE PHASES OF RETIREMENT PLANNING:

1. **Savings phase**--should start as soon as the client has income, but clients are often sidetracked by other savings objectives, such as buying a home and starting a family.
The motivation for retirement planning usually originates when planners encourage their clients to save for retirement and to use **rollovers** (tax-free transfers from one tax-qualified plan to another) when changing jobs.
2. **Increased preparation and visualization phase**--begins when the client become self-motivated to focus on retirement goals. This phase is often triggered when the client's parents retire. During the later part of this phase, clients often limit expenses and save salary increases.
3. **Decision phase**--occurs shortly before planned retirement.
Clients consider retirement options and begin to restructure asset allocations.
Planners advise clients about pension distributions, Social Security, and converting assets into retirement income.
4. **Retirement transition and lifestyle phase**--immediately follows retirement.
Clients adapt to their changed social environments and reduced incomes.
5. **Frailty phase**--occurs when clients deal with health issues and decreased mobility.
Planners advise clients about access to social services, community services, and medical services.

Obj 1-4. **THE CHIEF THREATS TO RETIREMENT SECURITY:**

1. **Lack of knowledge**--Most consumers do not understand portfolio design or financial products.
Three out of five retirement plan participants have not reallocated contributions or plan assets since joining their plans.
2. **Biological changes**--Aging is often characterized by the increased likelihood of disease and chronic impairments. **Elderly clients may have difficulty performing**
 - a. **activities of daily living (ADLs)**--physical functions that constitute the basic tasks of everyday life, such as dressing, bathing, self-feeding, toileting, and transferring from bed to chair *and/or*
 - b. **instrumental activities of daily living (IADLs)**--cognitive-related activities, such as shopping, money management, telephone use, meal preparation, medication management, and basic housework.Only 10% of people over age 65 develop dementia.
Although aging is inevitable, many losses of function that were once considered age-related (such as lost mobility or memory deficits) can be stopped or slowed by lifestyle changes.
3. **The shift to defined-contribution retirement plans**--The percentage of families with defined-benefit coverage has decreased steadily from 60% in 1992 to 45% in 2005.
The now predominant defined-contribution system
 - a. shifts investment risk to the employee *and*
 - b. provides less protection against inflation.
4. **Other issues**--Many employees are over-invested in employer stock.
There is a trend toward significant cuts in employer-sponsored medical coverage for retirees. Decreasing worker-to-retiree ratios will continue to strain the Social Security system.
5. **Seven problems facing retired women--Financial security during retirement is more difficult for women because women**
 - a. are more likely to have worked in industries that do *not* provide pensions,
 - b. have lower earnings,
 - c. experience higher turnover and are more adversely affected by plan vesting schedules,
 - d. outlive men and, thus, have longer retirement periods,
 - e. are more likely to forego employment income to care for a loved one,
 - f. are more likely to be single or widowed during retirement, *and*
 - g. tend to invest pension assets more conservatively.

Obj 1-5. **THE RUNGS ON THE RETIREMENT LADDER OF FINANCIAL INDEPENDENCE:**

1. **Social Security**--Almost all employees in the US are covered by Social Security. Almost 90% of people aged 65 or older receive Social Security or railroad retirement benefits. Social Security constitutes more than 40% of total income for people aged 65 and older. **But**, Social Security is designed to provide *only* a base income.
2. **Employer-sponsored retirement plans--Income from private pensions is an important source of retirement income, but**
 - a. only 30% of people aged 65 or older have pension income *and*
 - b. pension income constitutes only about 20% of total retirement income.
3. **Personal savings--Three components affect the amount of savings at retirement:**
 - a. the length of the accumulation period,
 - b. the rate of return, *and*
 - c. the amount invested.

The personal savings rate in the US has declined in the past 40 years. During the last 10 years, the average savings rate in the US has stayed below 5%. In contrast, the savings rates in Europe and Japan increased dramatically during that period.
4. **Informed planning**--According to a study, participation in 401(k) plans increases 17% when retirement seminars are offered.
5. **Insurance**--Medigap coverage and long-term care (**LTC**) insurance increase financial security in the face of rising health care costs.
6. **Fiscal welfare/social assistance--Fiscal welfare** involves indirect payments made to individuals through the tax system.

Social assistance is a type of social benefit that provides minimal benefits and uses eligibility criteria to encourage recipients to work.
[Services and programs available for low-income elderly clients will be discussed in Obj 1-6.]
7. **Part-time wages**--Many seniors (about 23% of those aged 65-69) continue to work. According to an AARP survey, 66% of older workers plan to work into their retirement years. Some clients consider **phased retirement** (gradual reduction in hours and work commitments rather than immediate withdrawal from the workforce). In one survey of men who left full-time career jobs, 50% left the labor force, 25% continued that job with part-time hours, and 25% switched to different jobs.
8. **Inheritances**--Clients should *not* rely on inheritances to fund their retirements. The median value of inheritances already received by baby boomers was \$47,900. Less than 2% receives inheritances over \$100,000.
9. **Other sources of retirement income**--Clients may also receive retirement income from home equity, life insurance, family business assets, and rental property.

Obj 1-6. **SERVICES AVAILABLE FOR LOW-INCOME AND/OR ELDERLY CLIENTS:**

1. **Supplemental Security Income (SSI)**--makes monthly income payments to individuals who are aged 65 and older, blind, or disabled *and* have limited incomes and assets.
2. **Older Americans Act (OAA)**--covers services to help elderly Americans live independently. **The act is administered** at the national level through the Administration on Aging (**AOA**), at the state level through a State Unit on Aging (**SUA**), and at the local level through an Area Agency on Aging (**AAA**). A local AAA provides information about AAA-funded transportation, service providers (such as legal services and meal delivery), Medicaid qualification, in-home services, *and* help for children providing long-distance care.

The eldercare locator is a toll-free service* that provides information about eldercare issues.
Respite care gives caregivers a temporary reprieve from their caregiving responsibilities.
Other services include the National Older Americans Volunteer Program, nutrition programs for the elderly, and the nursing home ombudsman program.

3. **The retirement savings contributions credit**--is a tax credit of up to \$1,000 for lower-income taxpayers who make eligible contributions to IRAs; 401(k), 403(b), or 457 plans; SIMPLEs; or SEPs.

The taxpayer must be at least age 18, *not* a full-time student, and *not* claimed as a dependent on another person's return.

The credit is a percentage (10%, 20%, or 50%) of the qualifying contribution amount, with the highest rate for taxpayers with the lowest incomes.

- [4. **Medicaid**--is a health insurance program for low-income individuals. **Medicaid covers nursing home care, inpatient and outpatient hospital care, physicians' services, dental services, home health care, and other health services.**]

Obj 1-7. **FINANCIAL GERONTOLOGY** addresses the relationship of financial security, well-being, and quality of life within and across generations.

Major issues in financial gerontology:

1. **Demographics--The elderly dependency ratio** (number of persons 65 or older per 100 persons aged 18 to 64) will increase from 20 per 100 in 1990 to 30 per 100 in 2030.
Over time, retirees will become more ethnically and racially diverse.
Of all the phases of the life cycle, older people have the greatest variation in terms of health and development.
2. **Biology of aging**--Heart disease and cancer cause two-thirds of all deaths in people age 65 to 84.
3. **Economic status**--The economic status of the elderly has improved significantly since the 1960s. The old-old are economically disadvantaged compared to the young-old.
Elderly women are economically disadvantaged compared to elderly men.
4. **Timing retirement**--Factors that influence retirement include job satisfaction, financial readiness, job rules, health status, availability of health insurance, income, *and* family responsibilities.
5. **Satisfaction with retirement--Two theories explain how well people adjust to retirement:**
 - a. **Crisis theory**--states that when a worker uses his job as his sole source of validation, the perceived loss of identity makes retirement traumatic.
 - b. **Continuity theory**--states that most people define themselves based on multiple roles. Thus, a retiree is better able to adjust to retirement by substituting new roles for the work role.
6. **Support systems**--Women are more likely to maintain contact with and receive support from their children.
Women are also more likely to maintain social support networks.
Men typically are less likely to seek help from others.
7. **The Age Discrimination and Employment Act (ADEA)**--The ADEA prohibits employers from discriminating against employees over age 40, *but* the law has not eliminated discrimination in hiring and it has *not* overcome bias against older workers.
Older workers who lose their jobs take longer than other workers to find new jobs and are more likely to take pay cuts in their new jobs.

[* The eldercare locator phone number is 1-800-677-1116.

The definition might be on your exam.

The number will *not* be on your exam.]