

Money for Life

February 2006

Dear Readers,

A successful retirement depends largely on the steps you take during different stages of your life. The FDIC offers the following strategies to consider as you plan for retirement. Investment portfolios shown are illustrations only. You must decide what percentages and investments are right for you.

Your 20s and 30s (Early Career)

Contribute as much as you can to IRAs, 401(k)s, Keoghs and other retirement savings while meeting other goals, such as buying a home or starting a family.

Keep your debt from credit cards and other sources manageable.

If you don't already own a home, consider if this is a good option for you. While a home purchase can be expensive, it also can be an excellent investment and source of tax breaks.



Given your years until retirement, you probably can afford to be fairly aggressive with your investments. Possible portfolio: 60 to 80 percent in stocks or stock mutual funds and most of the rest in certificates of deposit (CDs), bonds, bond funds or money market accounts.

Your 40s and 50s (Mid-Career)

Continue putting as much as you can into IRAs, 401(k)s, Keoghs and other retirement savings accounts. Once you reach age 50, you can make "catch-up" (extra) contributions to IRAs, 401(k)s and other retirement savings accounts.

If you haven't bought a house already, consider doing so as a source of equity and a place to live in retirement. If you have a mortgage, periodically compare your interest rate to current market rates. If current rates are better, consider refinancing.



As you get closer to retirement, consider reducing stock investments and adding more conservative, income-producing investments. Possible portfolio: 50 to 70 percent in stocks or stock mutual funds and most of the rest in CDs, bonds, bond funds or money market accounts.

Your Early 60s (Late Career)

Ask the Social Security Administration, your accountant or your employer's personnel office to help you determine how much Social Security and pension income you'd get if you "retire early" – and how much you'd lose compared to holding off on retirement.

Discuss with a financial advisor when to withdraw money from your tax-deferred retirement accounts, such as employer-sponsored retirement plans and traditional IRAs. After age 59 ½, you can withdraw your money without penalty but subject to income taxes. Under IRS rules, you must withdraw a minimum amount from 401(k)s, traditional IRAs and certain other retirement savings plans by April 1 of the year after you reach age 70 ½ and each year after that. There is an exception to the rules for someone still working for the employer who sponsors the plan.

Consult with your legal or financial advisors about estate planning – organizing your financial affairs so that your money, property and other assets can go to your heirs with a minimum of costs, taxes and hassles.

You may need or want to buy health insurance or long-term care (including nursing home) insurance. Consider the need for disability (wage replacement) or life insurance coverage.

Reduce your consumer debt as much as possible and consider the pros and cons of paying off your mortgage early. But if you think you'll need to borrow money during retirement, determine whether you want to refinance your mortgage, take out a home-equity loan, apply for a credit card or otherwise take out a loan before you retire. You might have more options for getting a loan when you still have employment income. No matter what loans you have or how old you are, it's important to keep your debts manageable.



Consider reducing your stock ownership and increasing your conservative investments. Possible portfolio: 30 to 60 percent in stocks or stock mutual funds and most of the rest in CDs, bonds, bond funds or money market accounts.

Your Retirement

The rules governing retirement can be complicated. So, about a year before you plan to retire, discuss your situation with a Social Security Administration claims representative. After you decide on a retirement date, apply for your Social Security benefits and other pensions about three months in

advance. If you plan to work part-time, find out how this will affect your Social Security income or taxes.

Arrange to have your periodic payments, such as Social Security benefits, directly deposited into your checking account. Ask your personnel department or financial advisor about whether to receive your 401(k) money in a lump sum or periodic payments.

Reduce your debts as much as possible. Be careful before taking on new debt, such as a home-equity loan or a reverse mortgage.

Lean toward conservative, income-producing investments, but don't rule out stocks or stock funds. Possible portfolio: 20 to 40 percent in stock or stock mutual funds and most of the rest in CDs, bonds, bond funds or money market accounts.

Retirement Planning Resources

Retirement: Secure Your Dreams ISUE publication series, PM 1816 to 1826, \$.50 to \$1.00

<http://www.extension.iastate.edu/financial/retire.html>

Ballpark Estimate

<http://www.choosetosave.org/ballpark/>

Social Security

<http://www.socialsecurity.gov/>

Consumer Retirement Plan Information

http://www.dol.gov/ebsa/consumer_info_pension.html

Newsletter contact information:

Phyllis Zalenski
605 E. Main
Anamosa, IA 52205
319-462-2791
319-462-4572 (FAX)
zalenski@iastate.edu

IOWA STATE UNIVERSITY
University Extension

... and justice for all

The U.S. Department of Agriculture (USDA) prohibits discrimination in all its programs and activities on the basis of race, color, national origin, gender, religion, age, disability, political beliefs, sexual orientation, and marital or family status. (Not all prohibited bases apply to all programs.) Many materials can be made available in alternative formats for ADA clients. To file a complaint of discrimination, write USDA, Office of Civil Rights, Room 326-W, Whitten Building, 14th and Independence Avenue, SW, Washington, DC 20250-9410 or call 202-720-5964.