Developing a strategy for retirement

Even if you are several years away from retirement, it's not too early to start gathering facts, weighing choices and mapping out your tax and investment strategy. Here are several suggestions that should help you organize your planning.

1. *Be aware of the Social Security and Medicare benefits that you will receive.* You can receive a reduced Social Security benefit any time after reaching age 62. The full benefit shown on your annual Social Security estimate statement will be yours when you reach "normal retirement age," which is now rising gradually. The age applicable to you depends on your year of birth and is shown on your estimate statement. You need to apply for Social Security at your local Social Security office or on the Internet at www.ssa.gov a few months prior to your intended retirement date.

You can begin receiving Medicare benefits, covering a substantial part of your health care costs, at age 65. Information on coverage and the application process is available by telephone at 1-800-MEDICARE or on the Internet at www.medicare.gov.

2. *Find out about company health benefits.* Although Medicare is fairly comprehensive, there are gaps that you may need to fill. Some companies recognize this fact and offer employees supplemental health insurance plans or group rates.

3. *Find out about retirement benefits.* You'll want to know whether you will be receiving regular, fixed payments or whether you have the option to take your benefits in a lump sum. If you choose a lump sum, you'll have to make another decision: to keep the money and pay tax on it immediately or set up a Rollover IRA. There are limited tax breaks available for your payout. Thus, you may be taxed at your ordinary income tax rate. If you set up the Rollover IRA, you can continue to shelter income earned in the account until you are required to begin making withdrawals at age $70^1/_2$.

4. *Develop an investment strategy.* Conventional wisdom for retirees stresses the need to play it safe. Usually the approach recommended is to reduce risk and enhance income. But few investments are risk free. Rising living costs can make even fixed-income investments look, in hindsight, like a risky investment. Your investments should be geared to your own financial picture and your own tax outlook.

5. *Determine who will oversee your investments.* Your own background and temperament will determine the best way to manage your investments. With leisure time, you may

enjoy monitoring your portfolio. On the other hand, you may want to travel or pursue new interests, and you'll want to put your portfolio in the hands of a professional investment manager. Perhaps you want to do it yourself but would like a "second opinion." A trust officer can explain the many choices available.

6. *Plan for the unexpected.* Many people are concerned about more than the management of their portfolio after retirement. They have questions such as: What happens to my finances in the event of my disability or prolonged illness? How can I provide for continuing income and support for loved ones after my death? One possible answer is to consult a trust officer about a living trust—a comprehensive, long-term investment plan that can help resolve these concerns.

7. *Look for ways to augment your retirement capital.* Usually the last years before retirement are years of peak earning power. Contribute as much as you can to tax-deferred retirement plans, such as an IRA or a company 401(k) plan.

8. *Stage a "dress rehearsal" for retirement.* Estimate your monthly income and monthly expenses. Figure that your retirement expenses will be approximately 75% to 80% of your current living expenses. Then try living for a month, *now*, on what you plan to live on *later*.

Of course, financial planning won't be the only planning you need to do. You may want to look for a new place to live, make extensive travel plans or take up the hobby that you've never had time for before. Whatever the anticipated pleasures of retirement are, you'll enjoy them all the more when you know your financial future is secure.

Any developments occurring after January 1, 2008, are not reflected in this article.