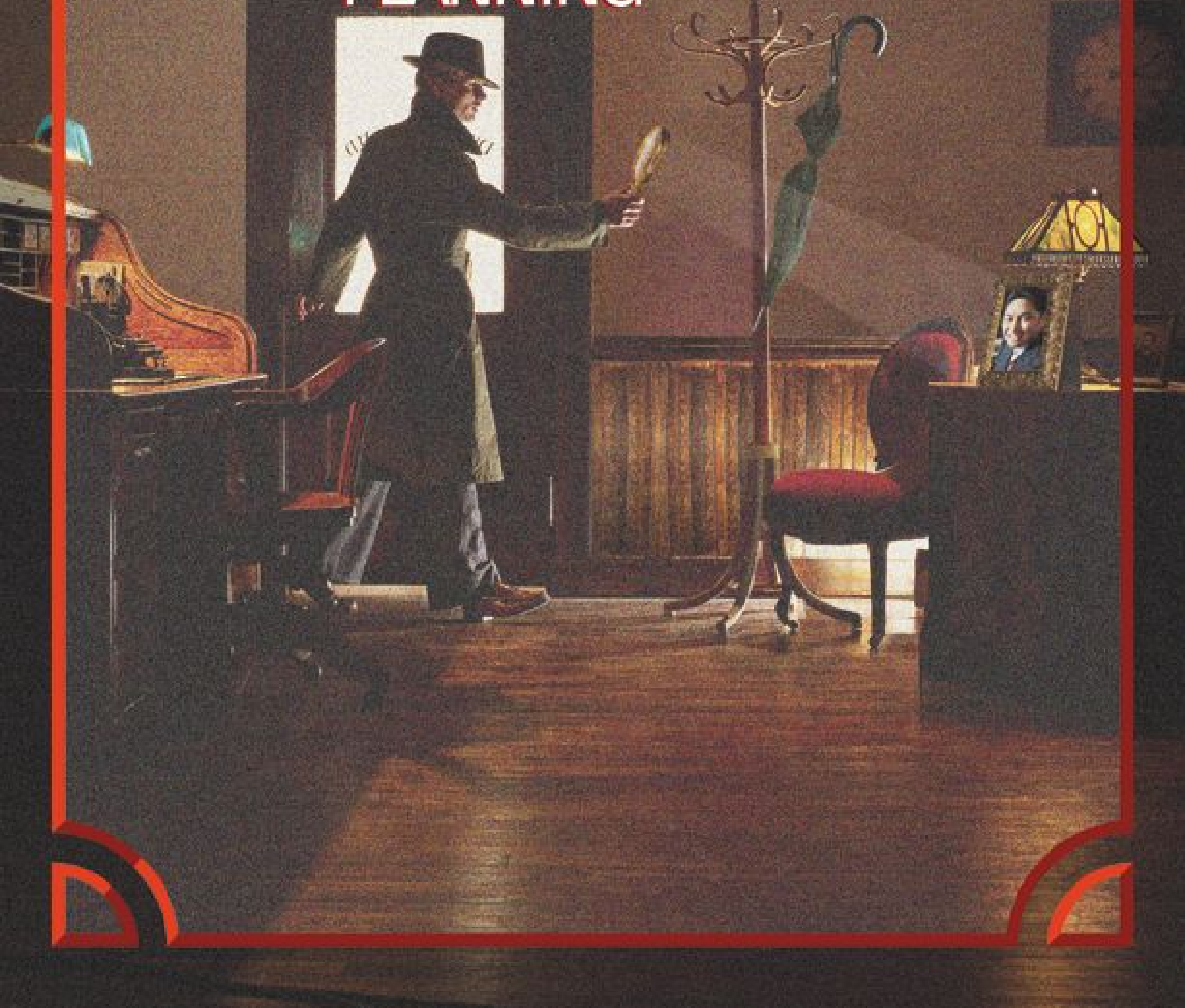
TAKING THE MYSTERY OUT OF RETIREMENT PLANNING



This publication has been developed by the U.S. Department of Labor, Employment Benefits Security Administration, and its partners. It is available on the Internet at: www.dol.gov/ebsa.

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SAVING MATTERS

created by

U.S. Department of Labor
Employee Benefits Security Administration

in partnership with

The Actuarial Foundation

North American Securities Administrators Association
NASAA

We also thank the AARP for its valuable contributions to this publication.

This booklet constitutes a small entity compliance guide for purposes of the Small Business Regulatory Enforcement Act of 1996.

United States Secretary of Labor

The key to a comfortable retirement is planning well in advance. Yet a recent survey indicates that with the "Baby Boom" generation approaching retirement age, less than half of Americans have calculated how much they will need to save for retirement.

To help Americans prepare for retirement, the U.S. Department of Labor has developed this book: *Taking the Mystery Out of Retirement Planning*. The information contained here is valuable to everyone, but it is specifically designed to help those who are about a decade from retirement.

Americans are living longer, healthier, and more active lives than ever before. Ideally, retirement years are a time for pursuing other interests, travel, perhaps volunteering in the community or even starting a new career.

To ensure a financially secure retirement, it is critical to make the right choices years ahead. Start on the path to retirement security ***today*** so you can have the retirement you have dreamed of.

Sincerely,

Elaine L. Chao

TAKING THE MYSTERY OUT OF RETIREMENT PLANNING

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PLANNING FOR A LIFETIME

It's not going to be your parents' retirement—rewarded at 65 with a gold watch, a guaranteed pension, and health insurance for life. For many Americans, retiring in this new century is a mystery. Earlier generations of workers could rely on employer-provided pensions, but now many workers will need to rely on their own work-related and personal savings plus Social Security benefits. These savings have to last longer because Americans are living longer, often into their eighties and nineties.

If you are one of those people who want to plan – and are about 10 years from the day you retire – this booklet is for you. Today's (and tomorrow's) retirees may well have a new kind of retirement. With a longer and healthier life span, bikes, boats, planes, and RVs may be part of your life, because you are more likely than previous generations to be an active older American.

Opportunities to take courses, start a new career, and become a volunteer can make your future an adventure. A longer life, however, will also mean more medical care, some of which will not be covered by the federal Medicare program.

The whole retirement scene has changed and many American workers find it a mystery. In fact, a 2004 survey by the Employee Benefit Research Institute (EBRI) suggests that only 42 percent of Americans have tried to calculate how much they need to save for retirement. In this booklet, each chapter will give you clues on how to take control of your finances so that when you retire, you have the time and money to do what you've always wanted. For some, it's simply being with friends and family. For others, it's starting a new hobby or craft. And for some it's starting a new life.

Whether you are 10 years from retirement or have a different timeframe – or even if you are retired – this booklet will help you to unravel the financial mysteries of life after work and to discover changes you can make for a financially secure future.

Time on Your Side

Getting started today will help you put time on your side. To help, *Taking the Mystery Out of Retirement Planning* offers a simplified, bottom-line approach to figuring out just how much you may need when you retire. The worksheets in this booklet will provide a guesstimate. Regard them as a starting point.

Each chapter in this booklet asks you to chart a different part of your financial life – your savings and your expenses – and helps you project future costs and savings well into your retirement years. Of course, no one has a crystal ball, and life has a way of throwing changes our way. But getting time on your side now, before you retire, means you will not be awake at 3 a.m. worrying about, instead of planning for, the future.

How to Use This Booklet: Simply read it to get familiar with retirement issues. Better yet, fill out the worksheets to figure the dollar amounts of what you have, how much it will grow in 10 years, and how much you may need to last over a 30-year period. Remember these amounts are only estimates, and you will want to update them from time to time.

Take your time. You may want to tackle one or two chapters, fill out the worksheets provided… then spend some time gathering the documents and information you will want to keep. Whether you approach the booklet chapter by chapter or all at once, keep going. Don't get stuck on details -- guessing is okay, and you can always come back later with more accurate numbers and information.

This booklet uses three time periods in charting your retirement savings. The starting point is today, when you are about 56 years old and plan to work approximately 10 years more. This is a good time to take stock of where you are in terms of retirement savings and set financial goals you would like to achieve in the 10-year period you plan to work.

The second point in time is the day you retire, when you are about 65 to 66 years old. That period between now and then is an important one. In those (approximately 10) years, you will have time to put more of your paycheck to work in a retirement account. It will grow, not only from your additional savings, but also from the "miracle of compounding," the world's greatest math discovery, according to everyone's favorite genius, Albert Einstein. This is the result of earnings from interest and from investments continually increasing the base amount.

Finally, the third time period used in this booklet is the approximately 30-year span you hope to enjoy retirement. It is the time period experts suggest you plan for, based on the average 65-year old American male living 17 more years and the average 65-year old female living 20 more years. These are only averages, so planning for 30 years will help you avoid outliving your income.

As you read through this booklet, keep an eye on the Timeline for Retirement that follows. Some of the terms, like "catch-up" retirement contributions beginning at age 50, may be new to you. The timeline offers some milestone opportunities to make changes so you can have the kind of retirement you want. The time to start is today.

CLUE 1

Timeline For Retirement:

AT AGE 50 Begin making catch-up contributions, an extra amount that those over 50 can add, to 401(k) and other retirement accounts.

AT 59 1/2 No more tax penalties on early withdrawals from retirement accounts, but leaving money in means more time for it to grow.

AT 62 The minimum age to receive Social Security benefits, but delaying means a bigger monthly benefit.

AT 65 Eligible for Medicare.

AT 66 Eligible for full Social Security benefits if born between 1943 and 1954.

AT 70 1/2 Start taking minimum withdrawals from most retirement accounts by this age; otherwise, you may be charged heavy tax penalties in the future.

Chapter 1

TRACKING DOWN TODAY'S MONEY

This chapter will help you shine a light on the mystery of where you will find the money to support yourself in retirement.

Many people don't have a clear idea of how much money they actually have, so it's hard to know how much they might be able to count on when they no longer work. Finding out what part of today's money can go toward retirement simply means adding up the value of all your current assets. In this case, "assets" are cash, investments, and anything of value you can exchange for cash, like your house, savings bonds, or even fine jewelry. This figure will be your first important clue.

Recording these amounts could be a pleasant surprise. You don't want to count emergency money and savings for your children's education or a big trip – only money that you are not going to touch for at least 10 years. For purposes of the following worksheet, you also don't want to include any future Social Security benefits and guaranteed pensions because these items are future income, not current assets (and they will be included later). Money in work-related retirement plans, like 401(k) plans, is counted, however, and you will want to include amounts from current and former jobs. In fact, these assets will probably be at the top of your "today's money" list that follows.

More Than You Think

Tracking your money in retirement plans should be fairly easy. If you didn't roll over your retirement plan balance when you changed jobs into a new retirement plan account or into an IRA, or if you didn't take your account balance as cash, you may discover some forgotten retirement assets you have. This is a good time to think about keeping your money with fewer, rather than more, quality financial institutions so it is easier to manage.

Recording current and old retirement account amounts on Worksheet A, *Today's Money* (see page 8), is important for a couple of reasons. First, locating any old account could take time. The longer it's "lost," the harder it will be to find. Second, understanding your current financial standing should automatically start you thinking about how to make your money grow.

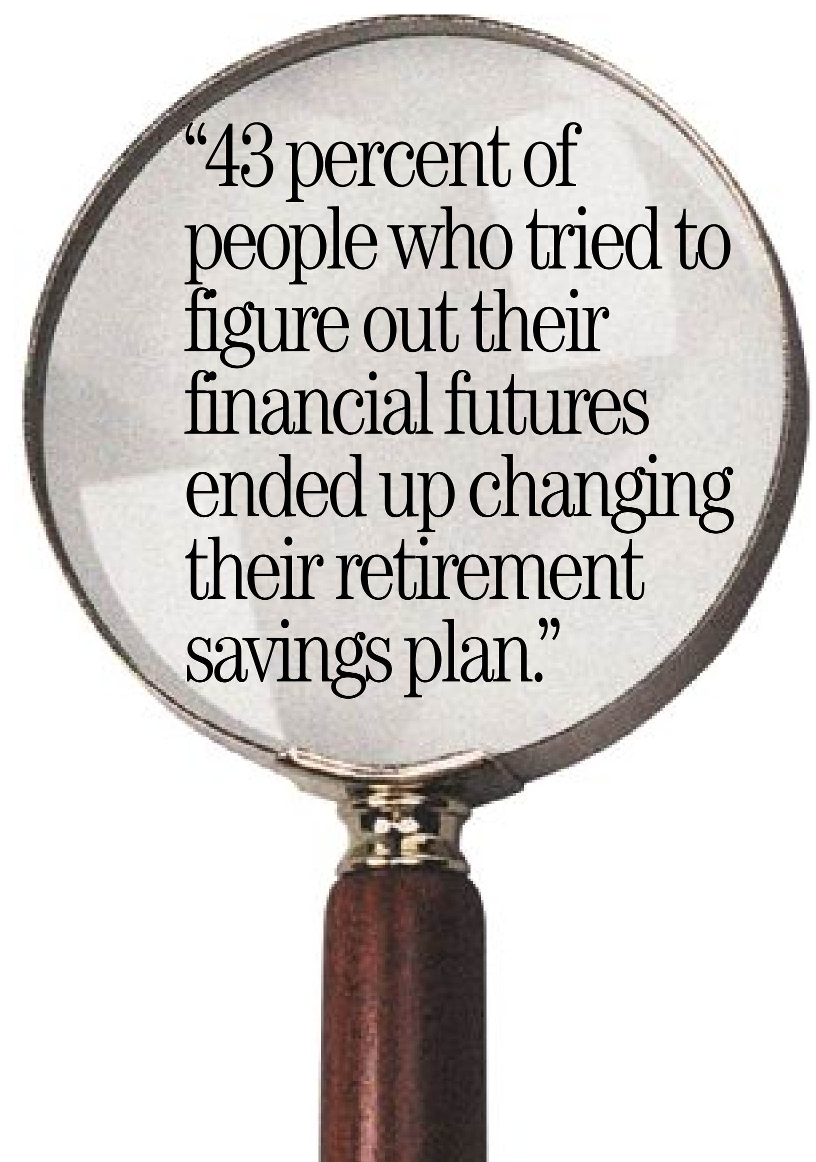
Quit Worrying, Start Planning

Remember you're facing a retirement that's probably going to be longer than your parents' and will involve more uncertainties. This new kind of retirement probably means there are many American workers worrying about, instead of planning for, the future.

You can choose to stop worrying and start figuring. Not only will you come up with facts to work with, the chances are good you might change the way you save. The 2004 EBRI survey also found that 43 percent of people who tried to figure out their financial futures ended up changing their retirement savings plans.

If you are a married woman: In preparing for retirement, women face the very real possibility of spending part of their retirement years without the support of a husband – most likely through widowhood. The loss of a spouse can sometimes mean the loss or reduction of benefits that can place women in financial jeopardy. For that reason, women will need to focus on their financial resources as a single person as well as half of a couple.

For purposes of the following worksheets, consider filling them out as a couple and as a single person. Consider what happens to your Social Security and to retirement benefits if your spouse dies or you divorce. Know what assets you can count on. Check Social Security benefit documents, retirement plan documents, and wills. Remember that wills are important, but they may not provide the protection desired. Depending on the way assets are titled or the terms of a will, the money women believe they can count on may not be passed to the surviving spouse.



When filling out the worksheets that follow, remember to include your spouse's assets if you're married. Like all of the worksheets in this booklet, be prepared to redo this first one. A raise and changes in your investments, for example, will affect the numbers on Worksheet A. To make it easy, extra worksheets are included at the back of this booklet.

ABOUT WORKSHEET A (PAGE 8):

TODAY'S MONEY

Here you will write down money you have today that you plan to use when you retire in about 10 years (do not add Social Security and traditional pensions at this stage; they will be figured in later on). The first money source, the balance on your current retirement plan account at work (a 401(k)

plan, for instance), should be easy to find. If you don't have a recent statement, ask the benefits department at work.

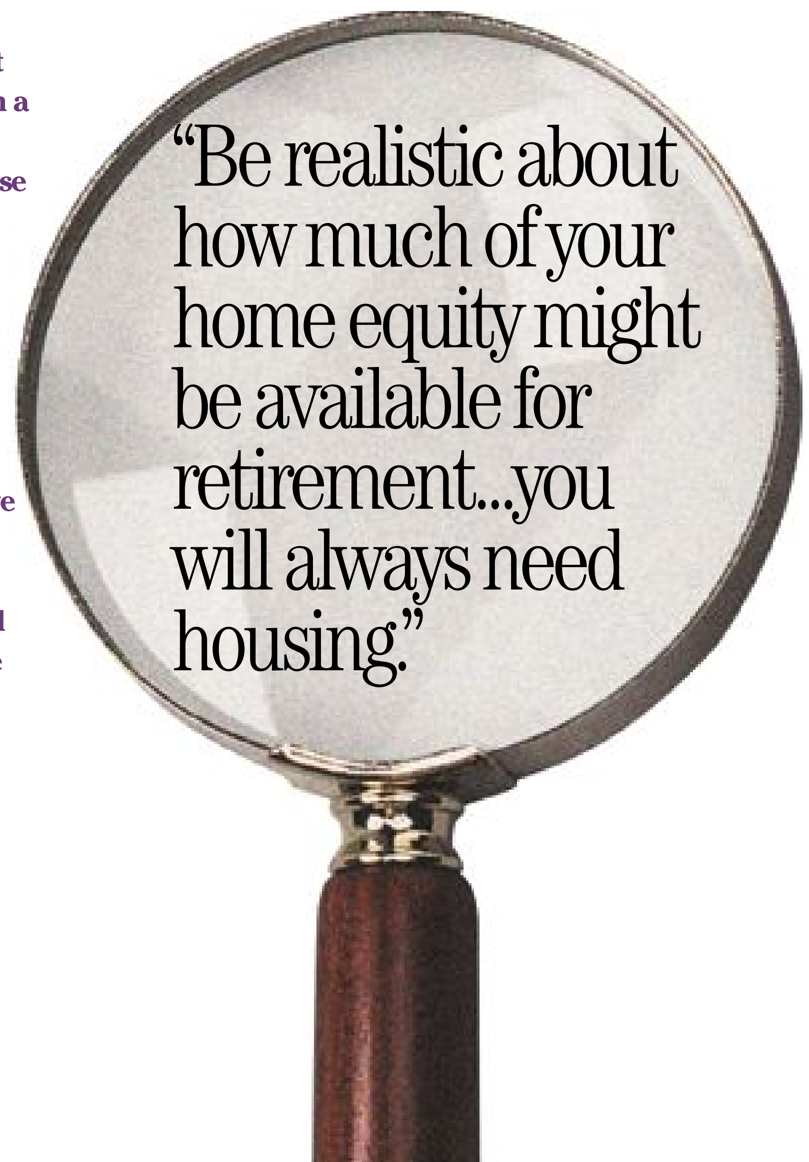
If you rolled over accounts from former jobs into an IRA, then read your statement or call the financial institution holding this account. In addition, get statements from all your bank or mutual fund IRA accounts, Keogh retirement savings, Simplified Employee Pension-IRAs (SEP-IRAs), and Savings Incentive Match Plans for Employees of Small Employers (SIMPLE) plans.

Personal savings and investments are next as possible retirement resources. They could be in a savings or checking account at a bank or credit union or in a brokerage account. The assets in these accounts may include cash, U.S. savings bonds, certificates of deposit, stock and bond mutual funds, and individual stocks and bonds.

To get a dollar amount for your home equity, subtract the current mortgage balance from the current market value of your house. Subtract from that the amount you owe on home equity loans or lines of credit (enter it as a negative amount on the worksheet). The bank holding the mortgage can provide the amount of your remaining mortgage balance. An appraiser or real estate professional can give you an estimate of the value of your house in the current market, or you can check on the Internet recent sales in your neighborhood (real estate values can change, however, so check your home's value from time to time).

Be realistic about how much of your home equity might be available for retirement. Remember that you will always need housing, and that condo fees, real estate taxes, maintenance and repairs, and rent tend to go up.

Other assets could be valuable collections or the cash value of life insurance. Keep in mind that the actual value of items like houses, boats, and collections can be determined only when real buyers make real offers.



WORKSHEET A
TODAY'S MONEY

Instructions: Record amounts for yourself and for your spouse in columns 1 and 2. Add up the money across each row for you and your spouse and write the total in column 3. Then add all the numbers down column 3 and write the total in column 3 at the bottom.

	1 You	2 Spouse	3 Total
Work-related retirement savings			
401(k) or 403(b)			
Keogh			
SEP-IRA			
SIMPLE IRA			
Other			
IRAs (traditional)			
IRAs (Roth)			
Other			
Home equity (market value)			
Mortgage and liens (enter as negative amount)			
Personal savings and investments			
Other assets (collections, etc.)			
TOTAL ASSETS			

Chapter 2

TRACKING DOWN FUTURE MONEY-AT RETIREMENT AND AFTER

Now that you know from Chapter 1 how much money you have today, you can estimate how much that money could be worth – because it will probably grow – in the 10 years between now and retirement. The worksheets will help you project a 10-year total, which will help you estimate a 30-year total. Yes, it's just a guesstimate, because the further in the future you plan, the more that can happen. But the totals give you some idea of how much you may have for your retirement years.*

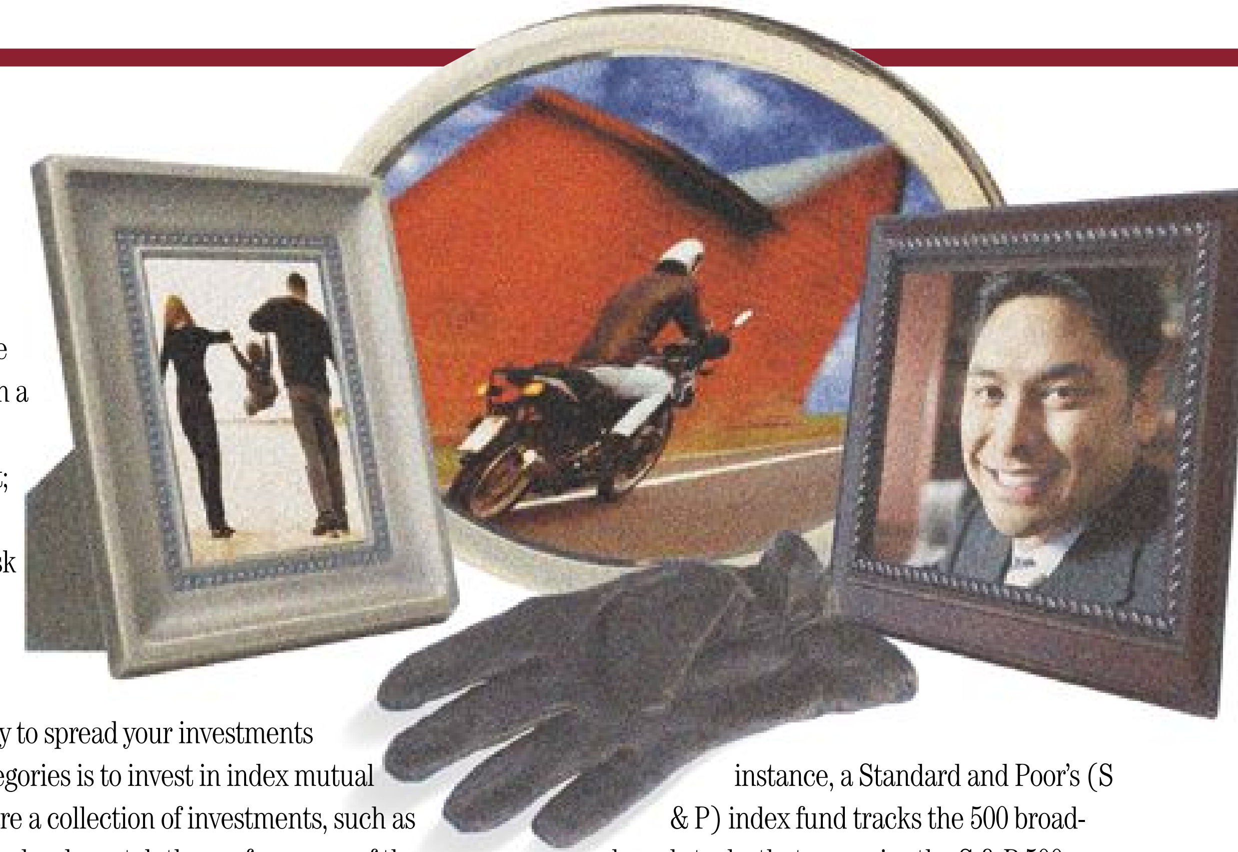
In addition, the worksheets in this chapter will let you see how much your money can grow by investing it in different ways. In fact, you will be able to assign different rates of return to different types of savings and to see how your decisions can impact the growth of your money over the next 10 years. Rates of return are simply the amount your money earns over a certain period.

How your money increases over time will depend on the nature of your investments, the rates of return, and other factors, such as the economy. One kind of investment, for instance, is a bond, which is often referred to as a "fixed income" investment because the interest rate is fixed. As an example, if you owned a bond with an original value of $10,000 and you got a 5 percent return (or yield) on your investment, your original investment would increase to $16,289 in 10 years.

Digging Deeper

You will probably want to dig deeper by assigning different rates of return to different pots of money – workplace savings accounts, IRAs, bank savings accounts -- you have put aside for retirement. Let's say you have $2,000 in a checking account that you never use. Your rate of return, in this case, with interest compounded monthly, will be low, maybe 1 percent. But your money is safe. Then let's say you've invested in a stock mutual fund for 15 years using your retirement plan account and you get a return of 11 percent. Investments in securities can bring a higher rate of return than simple interest because prices of securities often rise and gains are compounded. Of course, security prices can fall, as we saw with stocks in 2000 and 2001. The tradeoff for aiming for higher returns is taking on more risk, including the risk of losing money. Keep this in mind in selecting rates of return for the worksheets that follow.

In the example above, with some money invested in stocks and some in a safer, interest-bearing account, you are already doing what the experts recommend. You are practicing "asset allocation" – by putting your money in different types of products that earn different rates of return. Financial planners highly recommend this technique as a way to spread risk. A general allocation is to have some money in "cash," such as a savings, checking, or money market account with little or no risk; some money in bonds, with a little more risk but paying more interest; and some money in stocks, with more risk but a likely higher return, especially in the long run.



Another way to spread your investments among different categories is to invest in index mutual funds. Index funds are a collection of investments, such as bonds or stocks, that closely match the performance of the major holdings for that category of investment. For instance, a Standard and Poor's (S & P) index fund tracks the 500 broad-based stocks that comprise the S & P 500 Index. A bond index fund would track the performance of major bond holdings in that index. In this way, your investment is following the financial market for that particular category.

"Experts recommend that you spread your money among a range of investments so that your money is diversified."

Experts recommend that you spread your money among a range of investments so that your money is "diversified." In addition, most experts add that you should not only invest *among* categories but *within* each major category as well. For instance, your risk of losing money is less if you buy shares in several mutual funds investing in various types of assets (such as large company stocks, small company stocks and bonds). Even investing in just one mutual fund will help you to diversify compared to investing in individual securities on your own, since mutual funds, by their nature, allow you to invest in a collection of stocks, bonds, etc.

Financial planners believe that diversifying your investments helps reduce risk as markets move up and down. For example, in 1980 when some certificates of deposit (CDs) were paying 12 percent, stocks were barely

*People who are retired may want to skip the worksheets in this chapter and focus on the information about ways to grow your money.

CLUE 2

Average Annual Returns Over 10-Year Period: 1995-2004

INVESTMENT	PERCENT
Checking account/money market account	4.15
10-year certificate of deposit	5.42
S & P 500 Index (large company stocks)	12.07
Russell 2000 Index (small company stocks)	11.54
Lehman Brothers 30-year bond index	7.72

holding their own; but in 1999 most stock prices were rising fast, and CDs were paying 5 percent. You will see sample rates of return for some common places to put your money in the box above.

Too much money in one type of investment is always a bad idea and puts your money at risk. For example, many American workers are holding a lot of their employers' stock in their retirement accounts. This ties both your current paycheck and your retirement savings to one employer's success . . . or failure. This can be risky.

ABOUT WORKSHEETS B (PAGE 12) AND C (PAGE 14):

YOUR MONEY AND NEW SAVINGS

One quick way to estimate how much money you could have by your first year of retirement is to multiply your total retirement assets from Worksheet A, Chapter 1, by 1.629 (the factor equal to a 5 percent rate of return for 10 years). The result shows how much you will have if your money grows at 5 percent in that 10-year period. For example:

$100,000.00 (total from Worksheet A)
x 1.629
$162,900.00

The 5 percent return, by the way, is used to keep things simple: remember investment returns go up and down and cannot be guaranteed.

But digging deeper may mean coming up with your own numbers, and the worksheets that follow let you do just that. To keep it simple, the worksheets give you a choice of rates of return – 3, 5, and 7 percent – and include multiplication factors for each of these rates. **(Instructions continue on pg.13)**

WORKSHEET B

YOUR MONEY- 10 YEARS FROM TODAY

Asset Growth Factors for Three Selected Rates of Return

1.344 for 3% 1.629 for 5% 1.967 for 7%

	1 Current $ value (from Worksheet A, Column 3)	2 Asset growth factor (rate of return)	3 Asset value in 10 years (Column 1 x Column 2)
Work-related retirement savings			
401(k) or 403(b)			
Keogh			
SEP-IRA			
SIMPLE IRA			
Other			
IRAs (traditional)			
IRAs (Roth)			
Other			
Home equity (market value)			
Mortgage and liens (enter as negative amount)			
Personal savings and investments			
Other assets (collections, etc.)			
TOTAL ASSETS			

They are lower than the 8 to 10 percent returns often used before the stock market fell in 2000. Whether you're an optimist or pessimist about interest and rates of return, being conservative in your estimates is safer; better to have extra money than too little.

Worksheet B, *Your Money - 10 Years from Today* will let you take your current retirement saving sources and then figure out how much they might grow over 10 years, depending on how the money is invested.

In Worksheet B, you will be able to transfer the dollar amounts for your income sources directly from Column 3 of Worksheet A, starting with 401(k) and 403(b) plans. Then multiply each of these results by an asset growth (rate of return) factor you'll see at the top of Worksheet B. Write the total in Column 3.

The rate you choose depends on what you've done with your retirement savings. If they're all in fixed income investments, your rate is predetermined. If they're in mutual funds, you'll need to do some research to figure out past rates of return as a guide for estimates for the future. Retirement plan statements should indicate past rates of return. But remember, for investments, past performance never guarantees future results.

Like Worksheet A, Social Security benefits and pensions are not included since you most likely won't receive these sources of income until retirement. There will be more later in the publication about how waiting to receive Social Security (and pension) benefits will mean a bigger check.

Estimating a rate of return on your home will depend on the real estate market in your community. Figure a low estimate for this and for any personal property in which the value depends on how much a buyer would pay. Also consider any mortgage or liens you have on the home since those would be repaid from any cash you would obtain on the sale of the home.

If you have other investments, such as annuities, put them in the "Other assets" column of Worksheet B.

As an example of a possible calculation, suppose you have $10,000 in a traditional IRA, and you believe it will earn 5 percent over the next 10 years. Your calculation would look like this:

$10,000.00 (amount in an IRA)
x 1.629 (rate of return factor for 5%)
$16,290.00 (savings in 10 years)

When you have finished Worksheet B, go on to Worksheet C, *New Savings Between Now and Retirement*. This worksheet will allow you to take any additional workplace and personal savings you can expect to add between now and retirement and determine how much they will grow to at the time of your retirement.

You can enter any estimated periodic contributions (such as to your 401(k) or IRA) between now and retirement in the first column. In addition to these sources, include in the worksheet any money you can count on receiving in the next 10 years – for example an inheritance. Remember that you are only estimating the rate of return on this money over a period of years and that you will need to review your estimate from time to time.

Multiply these amounts by the savings growth factor for the rate of return you select from the top of Worksheet C. As with Worksheets A and B, three different rates of

WORKSHEET C

NEW SAVINGS BETWEEN NOW AND RETIREMENT

Savings Growth Factors for Three Selected Rates of Return

139.741 for 3% 155.282 for 5% 173.085 for 7%

	1 Estimated monthly savings amount	2 Savings growth factor	3 Value of savings in 10 years (Column 1 x Column 2)
Work-related retirement savings			
401(k) or 403(b)			
Keogh			
SEP-IRA			
SIMPLE IRA			
Other			
IRAs (traditional)			
IRAs (Roth)			
Other			
Home equity (market value)			
Mortgage and liens (enter as negative amount)			
Personal savings and investments			
Other assets (collections, etc.)			
TOTAL ASSETS			

return have been selected but based upon the nature of your investments, you may want to use a different rate of return. Enter the results in the third column.

As an example, if you save $100 a month in a workplace 401(k) plan, and if you believe that investment will earn 5 percent per year, the calculation would look like this:

$100.00	(savings each month)
x 155.282	(rate of return factor for 5%)
$15,528.20	(savings in 10 years)

You are making great progress in tracking down your retirement assets and solving the first half of your retirement mystery. Now move on to Worksheet D, *Monthly Income Over a 30-Year Retirement,* to take all of your anticipated assets from Worksheets B and C and convert them to a monthly income that you can use later to compare with your anticipated monthly expenses in retirement.

In this worksheet we now add Social Security and pension benefits since it deals with income you can rely on during retirement.

You can fill in the box in Column 3 for Social Security benefits by using information readily available from your Social Security Administration (SSA) statement. You should be getting a SSA statement every year with information about your own benefit.

If you have a fixed pension from work, the amount for Worksheet D is based on your pay at the end of your career. Your employer, union, or the pension plan administrator can give you details about the amount and start date of your pension, and whether you will get your pension in a lump sum or fixed monthly checks (see discussion in Chapter 5 describing these options to help you choose). If you receive your benefit as a lump sum, put that amount in Column 1. If you receive it as a fixed monthly benefit, fill in only Column 3.

If you were in a traditional pension plan that was abandoned for some reason, like your employer going out of business, you will still receive some (or all) of your pension benefits since these plans are federally insured. Information about your plan and benefits may be available from the Pension Benefit Guaranty Corporation. (See Chapter 6 for PBGC contact information.)

For those assets you tracked down for Worksheets B and C, take the totals for each source, such as your 401(k) plan, from both worksheets, add them together and enter them in Column 1. Select an income conversion factor representing the rate of return you expect to earn on those assets in the future and enter it in Column 2. Multiply Column 1 by Column 2 and enter the result in Column 3. Remember, this calculation is a guesstimate, since things that impact your income, such as your tax status, will vary.

When you add up all of the numbers in Column 3, you will have a monthly income for the 30 years of your retirement. This fixed monthly income is used to simplify the calculations. Realize that it takes into account both the continued growth of your assets while you are withdrawing money to live on.

Also keep in mind that while the worksheet includes your home equity (less any mortgage or liens), you may need to live in your home for some time or use some of the assets from its sale to purchase another home, so it may not provide immediate income.

Here is an example of the Worksheet D calculation:

$50,000.00	(401(k) account balance)
x 0.005368	(income conversion factor for 5%)
$268.40	(per month)

WORKSHEET D

MONTHLY INCOME OVER A 30-YEAR RETIREMENT

Income Conversion Factors for Assumed Rates of Interest

0.004216 for 3% 0.005368 for 5% 0.006653 for 7%

	1 **Accumulated assets** (Column 3 from Worksheet B plus Column 3 from Worksheet C)	2 **Income conversion factor**	3 **Monthly income beginning at retirement** (Column 1 x Column 2)
Social Security			
Work-Related Retirement Savings			
Pension benefits			
401(k) or 403(b)			
Keogh			
SEP-IRA			
SIMPLE IRA			
Other			
IRAs (traditional)			
IRAs (Roth)			
Home equity (market value)			
Mortgage and liens (enter as negative amount)			
Personal savings and investments			
Other assets (collections, etc.)			
TOTAL ASSETS			

Chapter 3

TRACKING DOWN FUTURE EXPENSES

This chapter will start you on the road toward a realistic look at your expenses in retirement and how they will be affected by inflation. These numbers are important clues to your retirement mystery.

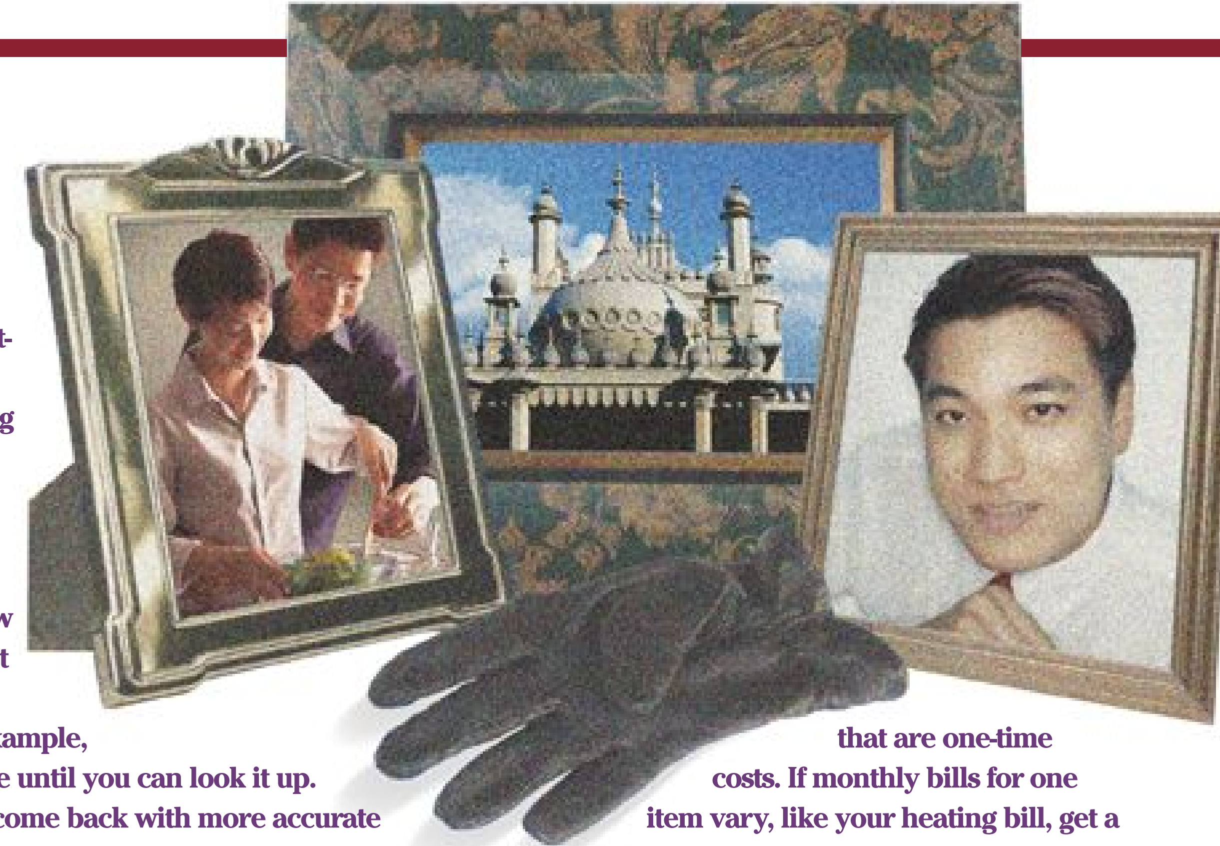
You will be looking at your expenses today and estimating how they will change over time and, specifically, during two other time periods: the day you retire 10 years from now and over the approximate 30-year span of your retirement. In doing so, you will have some idea of whether the money you have saved will be enough to last. You will also have a chance to look at your spending patterns and decide how they could change over time. After all, you can't control inflation over this stretch of time, but you certainly can control what you spend.

Your expenses will likely change as you grow older. Early on, you will spend less on work-related things like transportation and clothing. Maybe you'll spend more on traveling, hobbies, or other things you have always wanted to do. As you age, it is likely that more of your budget will go toward medical expenses, which you will read about soon. Retired people may find that recording their expenses will alter future spending patterns.

ABOUT WORKSHEET E (PAGE 19):

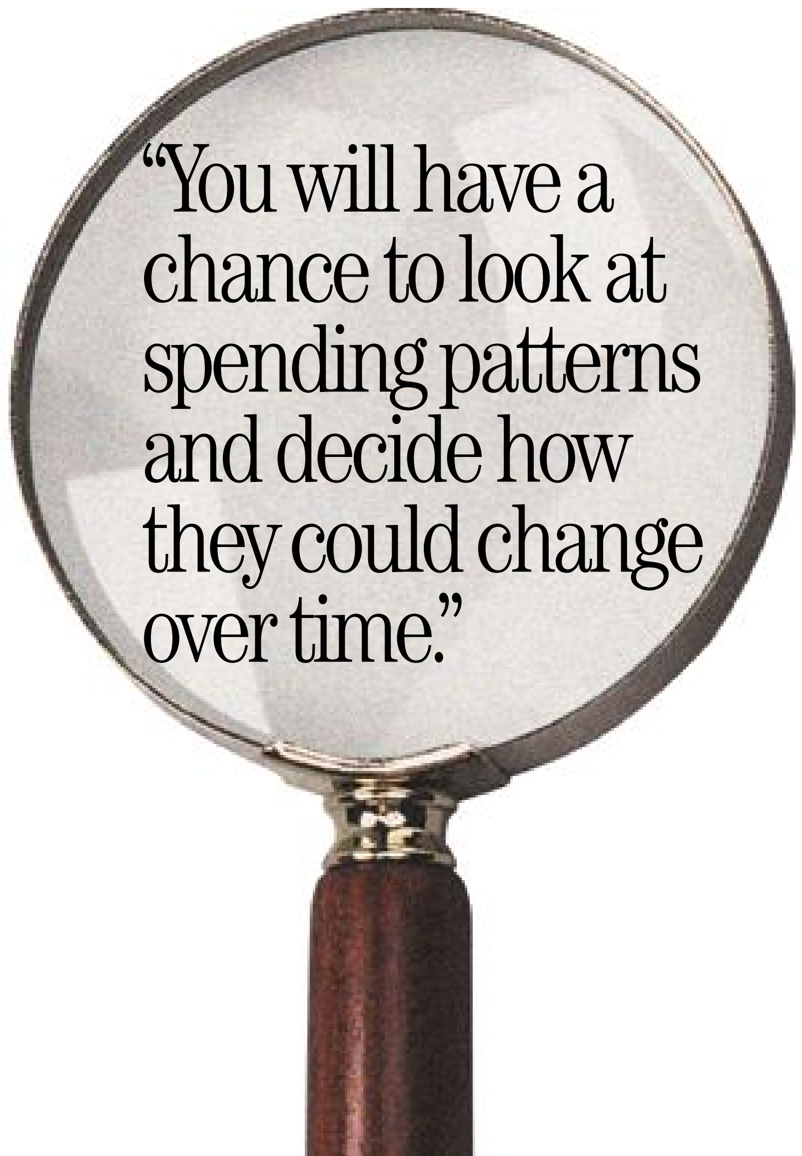
MONTHLY EXPENSES TODAY

First add up current monthly expenses in Worksheet E (*Monthly Expenses Today*). Then in Worksheet F, *Monthly Expenses in 10 Years,* take those totals and adjust them for inflation to estimate your expenses during your first year of retirement. Chapter 4 will look at those expenses over a 30-year retirement and how you will be spending the income you just calculated. If you want a quick estimate of how much monthly income you'll need to cover expenses in retirement, figure on at least 70 percent of your preretirement income. Many experts are now increasing that figure to 80 or 90 percent.



Avoid getting stuck on the details and giving up because you don't have exact records of your spending. If you don't know the exact amount you pay for car insurance, for example, use a guesstimate until you can look it up. You can always come back with more accurate numbers.

Don't include things like college tuition that are one-time costs. If monthly bills for one item vary, like your heating bill, get a year's worth, add them up, and divide that total by 12 for an average monthly expense. If you get a bill four times a year, add up a year's worth and divide by 12 for an average monthly cost. Remember to include your spouse's expenses if you're married and the expenses of anyone financially dependent on you.



"You will have a chance to look at spending patterns and decide how they could change over time."

Inflation and Your Future

Inflation, in its simplest terms, means that dollar-for-dollar your money will not buy as much next year as it does this year. This means inflation is a major factor in determining how much money you will need in retirement since, to cover inflation's impact, you will need more money every year. In other words, if your money is not earning more than the rate of inflation, you will lose part of your nest egg's buying power.

You can't know and can't control future inflation. The only accurate inflation rates are from the past, and they vary widely. In 1980, overall prices went up a whopping 13.5 percent; in 2002, they went up only 1.6 percent. Looking at the past shows how rates may vary widely. Worksheet F uses the factor for a 3.5 percent rise in prices for the next 10 years. But these are estimates, and remember we've gotten used to low inflation overall—with a few glaring exceptions—over the last decade.

Facing Down Rising Costs

One exception to low inflation rates is medical costs, which have risen faster than inflation over the last 20 years, and some experts think will rise about 7 percent a year over the coming years. If you have, or your family history includes, a serious medical condition like heart

WORKSHEET E

MONTHLY EXPENSES TODAY

	1 Monthly Amount
Housing	
Mortgage (Including condo fees)	
Rent	
Maintenance	
Food (at home)	
Utilities	
Electricity	
Heat	
Internet/cable	
Phones	
Water/sewer	
Clothing	
Taxes	
Real estate	
Income (state and federal)	
Other property taxes	
Insurance	
House	
Life	
Car	
Disability	
Long-term care	

	1 Monthly Amount
Loans	
Car	
Credit card	
Other	
Workplace retirement and personal savings	
Personal Care	
Hair cut	
Dry cleaning	
Gym	
Other	
Transportation	
Car repairs and maintenance	
Gas	
Parking	
Public transportation	
Health Care	
Health insurance	
Doctor visits	
Hospital	
Medicine	
Over-the-counter medicine	

	1 Monthly Amount
Health Care (continued)	
Dental	
Vision	
Noncovered items	
Travel/vacations	
Entertainment	
Eating out	
Hobbies	
Movies/theatre	
Charitable contributions	
Other	
Gifts	
Membership dues	
Pet-related costs	
TOTAL ESTIMATED MONTHLY EXPENSES (other than health)	
TOTAL ESTIMATED MONTHLY EXPENSES (health)	

disease, you will probably spend more on health care than you ever imagined. In fact, the consulting firm of Hewitt Associates estimates that, on average, 20 percent of retiree income will be spent on health care.

While Medicare is a great benefit to persons 65 and older, it does not cover all medical costs – deductibles, copayments, and long-term care, for example. Medicare Part A covers hospital care only. Medicare Part B, an additional insurance you will be offered when you become 65, covers doctors' services, outpatient hospital care, and things like physical and occupational therapy and some home health care. The current cost of Medicare Part B is about $78.20 per month, and it goes up every year. In addition to Medicare Parts A and B, many retirees buy Medigap policies for uncovered services like dental and vision care and drugs. Depending upon where you live and the policy you choose, you can pay $55 to $300 a month. In 1999, Medicare, private insurance, and/or Medicaid paid for only about 65 percent of retirees' overall health care expenses.

An additional feature that will be available starting in 2006 is the Medicare prescription drug program (Medicare Part D). Those eligible for Medicare Part A and/or Part B will be able to join a prescription drug plan offered in their area. By paying a small premium – around $37 a month in 2006 – those who join will be able to get prescription drugs at a lower cost. (The *Resources* section on page 42 includes publications about this new program.)

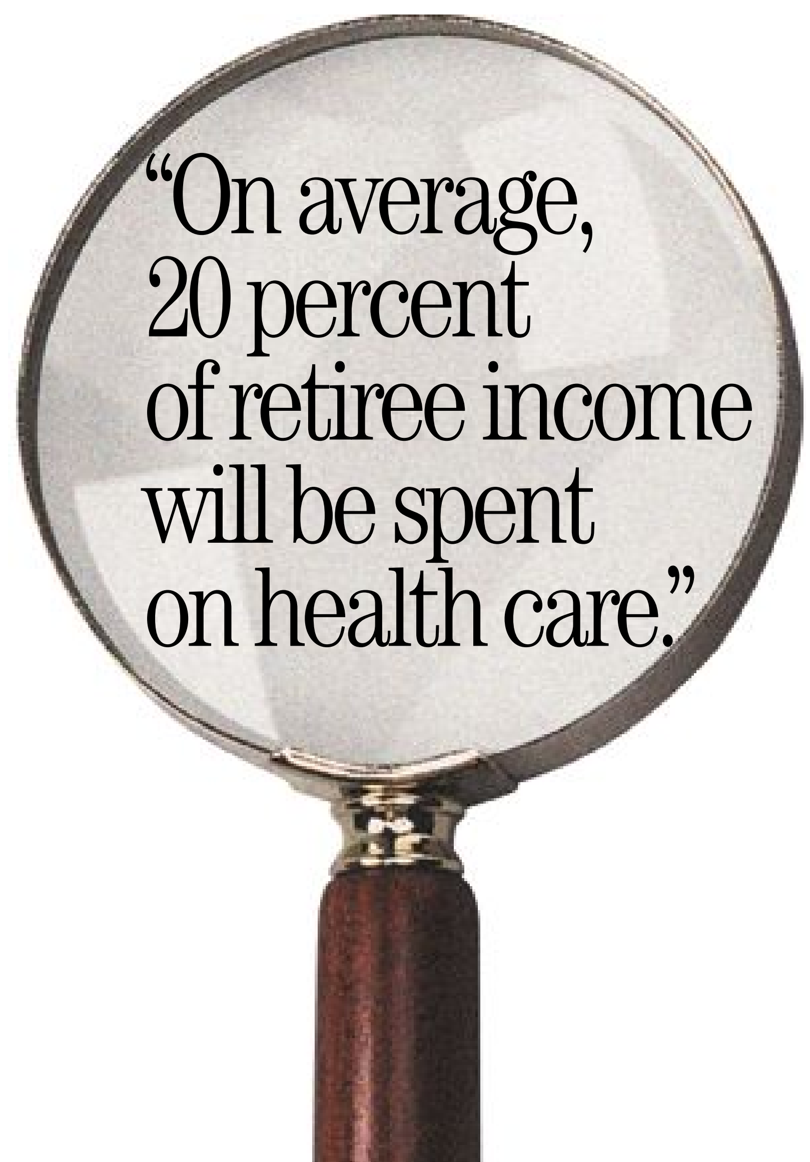
If you are thinking about retiring early, you may have to buy health insurance until Medicare kicks in at age 65 if your employer does not cover health care for retirees. And you should know that employer-provided health benefits for retirees might not be guaranteed, and could be reduced or eliminated by your former employer under some circumstances.

Where Will You Live When You Retire?

Make planning for your future housing needs one of your first priorities since where you live in retirement affects not only your income, but also your emotional, social, and physical well being. It is an important part of your overall retirement strategy. While the cost of owning a home hasn't gone up as much as health care, it is high in many regions. Home heating and cooling costs are rising fast too. Maintenance, condo fees, real estate taxes, and insurance are other costs affected by inflation.

As you age, you may want to look into other types of housing. Independent living facilities, designed for reasonably healthy older people, often require a hefty down payment, say $200,000, and then a monthly fee of about $2,000. Saving for nursing home care, which in 2004 averaged $192 a day, also might make you feel more financially secure, given that at least 40 percent of today's 65-year-old Americans will spend some time in the future in a nursing home.

With medical and housing costs such a big part of a retirement budget, it's no surprise that products and services have been developed to help plan for and manage these costs. Rising health care costs, in particular, could consume all the money saved for retirement. One of the more recent products developed is long-term care insurance, which can protect retirees' assets by paying for medical care in a nursing home and sometimes in your own home. Premiums vary by the features you choose, such as the amount of the daily benefit paid and protection against inflation. The typical annual premiums for a 60-year old can be as high as $2,500 a year. Buying such a policy at a later age means higher premiums. If you're considering a policy, get some advice, because long-term care insurance is a new product and some policyholders may find the coverage isn't what they need.



To cope with these future expenses, some preretirees are starting special health care savings funds at work, separate from their retirement savings. One example is a new type of account, a health savings account (HSA), which is designed to help certain employees save for future qualified medical and retiree health expenses on a tax-free basis. Essentially, an HSA is a savings account into which you can deposit money for future use. If you belong to a health plan with a deductible of at least $1,000 (for individual coverage) or $2,000 (for family coverage), you may be able to set up an HSA. Individuals who don't belong to a workplace health plan can sign up for HSAs with some banks, insurance companies, and other approved entities.

These accounts can receive contributions from you, your employer, or even a family member on your behalf. You can use the funds from an HSA to help offset future medical costs, and the money in your account can be carried over from year to year. In addition, this type of account is portable; it stays with you as you move from one employer to another or if you leave the work force. To learn more about health savings account criteria, see the *Resources* section.

WORKSHEET F

MONTHLY EXPENSES IN 10 YEARS

(First year of retirement)

	1 Total monthly expenses now (from monthly expenses column in Worksheet E)	2 10-year inflation factor of 1.4106 (3.5%) (except for health care)	3 Total expenses in 10 years adjusted for inflation (Columns 1x2)
Housing			
Mortgage (Including condo fees) Rent Maintenance			
Food (at home)			
Utilities			
Electricity Heat Internet/cable Phones Water/sewer			
Clothing			
Taxes			
Real estate Income (state and federal) Other property taxes			
Insurance			
House Life Car Disability Long-term care			

	1 Total monthly expenses now (from monthly expenses column in Worksheet E)	2 10-year inflation factor of 1.4106 (3.5%) (except for health care)	3 Total expenses in 10 years adjusted for inflation (Columns 1x2)
Loans			
Car Credit card Other			
Workplace retirement and personal savings			
Personal Care			
Hair cut Dry cleaning Gym Other			
Transportation			
Car repairs and maintenance Gas Parking Public transportation			
Health Care	For a	7% inflation factor, use	1.9672
Health insurance Medicare Part B Medigap Doctor visits Hospital Medicine Over-the-counter medicine			

WORKSHEET F CONTINUED

MONTHLY EXPENSES IN 10 YEARS

(First year of retirement)

	1 Total monthly expenses now (from monthly expenses column in Worksheet E)	2 10-year inflation factor of 1.4106 (3.5%) (except for health care)	3 Total expenses in 10 years adjusted for inflation (Columns 1x2)
Health Care (continued)			
Dental			
Vision			
Noncovered items			
Travel/vacations			
Entertainment			
Eating out			
Hobbies			
Movies/theatre			
Charitable contributions			
Other			
Gifts			
Membership dues			
Pet-related costs			
TOTAL MONTHLY EXPENSES ADJUSTED FOR 10 YEARS INFLATION (other than health)			
TOTAL MONTHLY EXPENSES ADJUSTED FOR 10 YEARS INFLATION (health)			

ABOUT WORKSHEET F (PAGE 23):

MONTHLY EXPENSES IN 10 YEARS

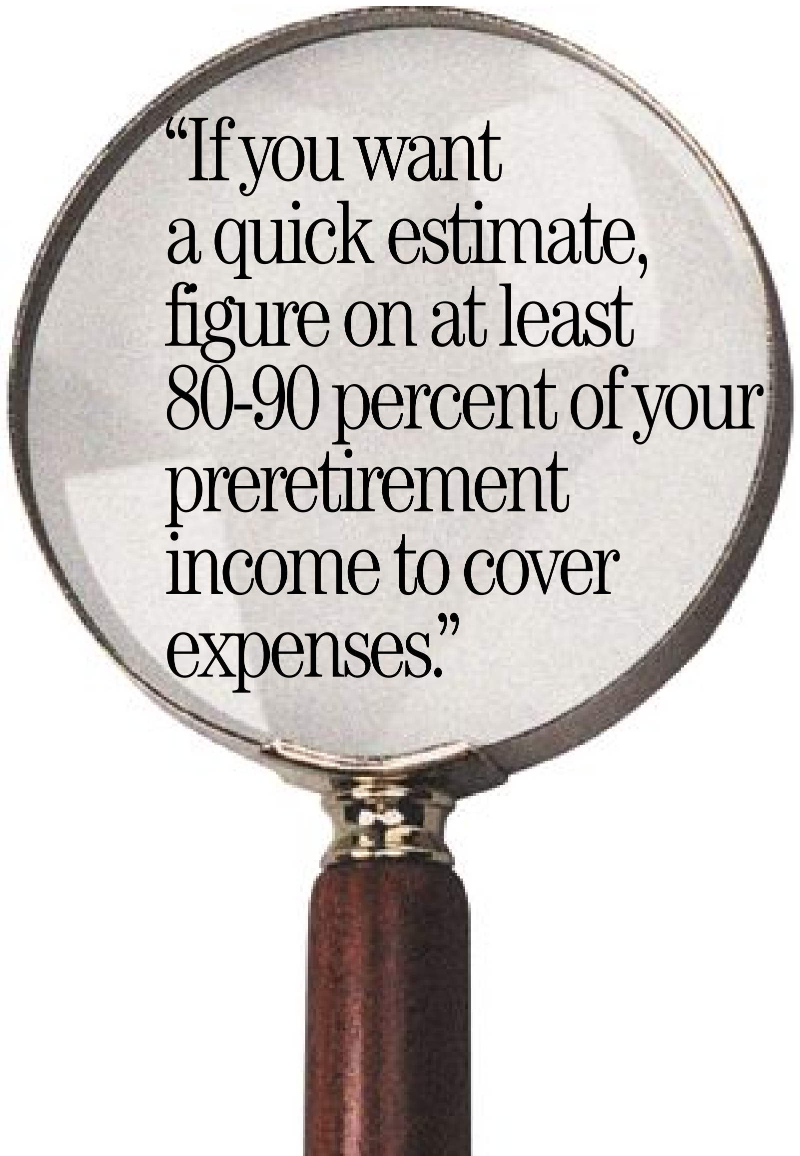
This worksheet will show you how inflation can increase your total expenses in your first year of retirement.

You will notice that Worksheet F has room for some new types of health-related expenses many retirees are likely to incur in retirement. Since your home mortgage will be paid at some point, this may be one place where money will be freed up. You may want to use that money (or other funds) as savings during retirement, whether to add to your nest egg for unexpected retirement emergencies or to plan for inflated expenses later in your retirement.

Here is an example of the calculations you will do in Worksheet F:

$200.00 (amount spent on food each month today)
x 1.4106 (inflation factor of 3.5%)
$282.12 (cost of the same food basket in 10 years)

Note that for many mortgages and some loans, your payments have taken into account the rate of inflation. If you have a fixed mortgage or loan you will not need to do the calculation for this item.



Chapter 4

COMPARING INCOME AND EXPENSES

Now you will compare your income with your expenses during retirement and see if they match up. This is the number you've been working toward as you've investigated your assets and income, then expenses, and finally, figured the effects of time on your money. By the end of Chapter 4, you will discover whether you need to save more for retirement and, if so, how much more...and you will learn how to grow your savings over time.

Few people will have exactly the amount of money they will need in retirement. Most will get a negative figure – a gap – when they do the math. If this is your situation, this chapter can help you figure how much more to save each month over the next 10 years until you retire. After you come up with your totals, be sure to read on to find out the difference a year can make and the five ways to close the gap and boost your savings. Where will you find additional savings? Here are some suggestions for active workers and retirees alike.

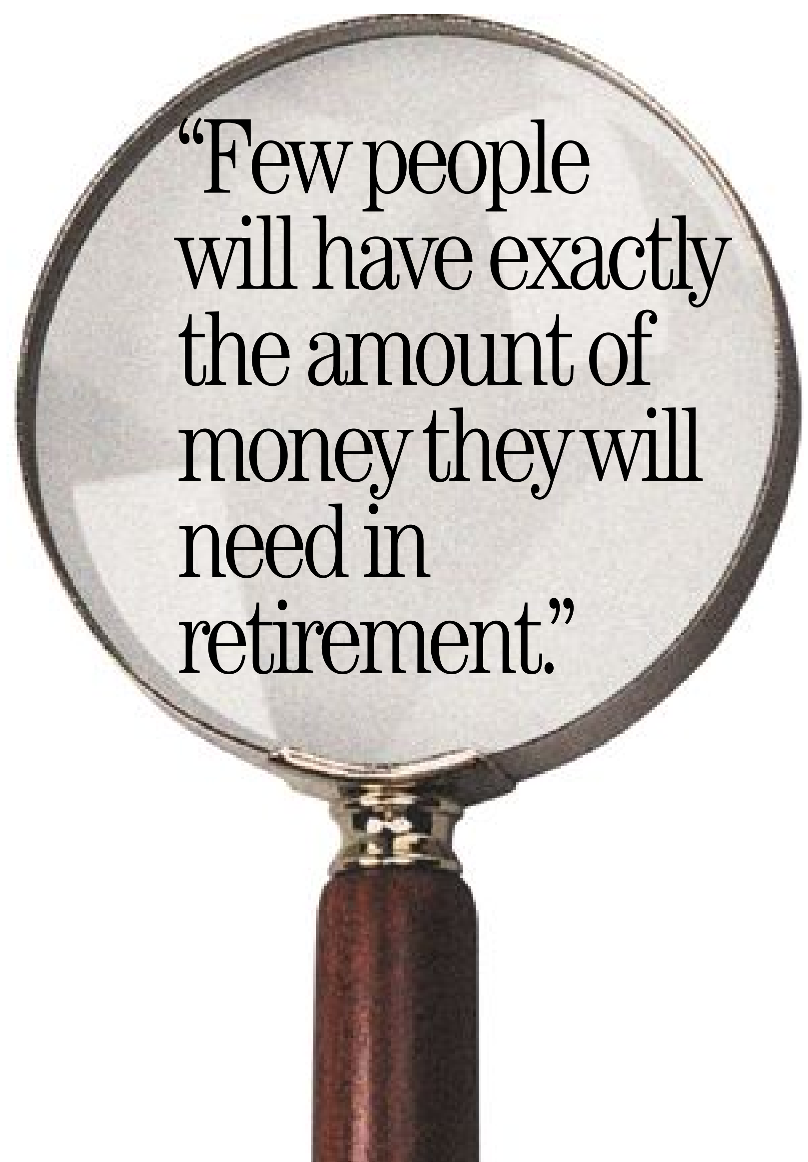
You probably know by now the easiest way to watch your nest egg grow is to make the maximum contribution to your workplace savings plan through payroll deductions. If you are 50 or over, you will have the chance to add even more to your savings through catch-up contributions, ranging from $500 to $5,000, depending on the type of retirement plan you have. And you are reducing your taxes. If there's no retirement plan at work, you can add annual contributions to any IRA accounts you have.

Join the Club

Most people haven't thought about how long their savings will last in retirement or how much inflation will increase over time.

Worksheet G is where all your prior work comes together. Building on the clues uncovered in the earlier worksheets, Worksheet G compares your anticipated income and expenses over the 30 years of your retirement. Making the comparison in dollars valued at the time of your retirement, this worksheet takes into account that while you will have a fixed monthly income, your expenses will increase due to inflation.

At the beginning of retirement, most people's monthly income likely will exceed their expenses; but after a decade or so, expenses begin to exceed the monthly income. Realizing this now will allow you to save and invest any extra income in the early years of retirement so that it will grow and can be used to cover increased expenses later in retirement. Especially if you have a shortfall, this worksheet will allow to see how much you may need to add to your savings. When doing this comparison of your projected income and expenses, keep in mind that the value of a dollar tomorrow is less than a dollar today. The goal is to stay ahead of inflation. For example, a dollar today is worth more than a dollar in 30 years if the rate of return, say 5 percent, is greater than the inflation rate, say 3.5 percent. The worksheet addresses the impact of inflation by converting your anticipated cash flows into a constant dollar value – at the time of your retirement.



ABOUT WORKSHEET G (PAGE 29):

COMPARING PROJECTED INCOME AND EXPENSES

Start Worksheet G by taking the total monthly income calculated in Worksheet D and multiply it by a value adjustment factor you select from Clue 3 (page 31). Select the rate of return with a 0 percent inflation rate. Then multiply this result by 360 – the number of months in a 30-year retirement. Enter that amount in Column 4 of Worksheet G.

WORKSHEET G

COMPARING PROJECTED INCOME AND EXPENSES-ARE YOU PREPARED?

	1 At retirement	2 Inflation adjusted value factor (see Clue 3)	3 Value in dollars at retirement for one month (Column 1 x Column 2)	4 Total value of in dollars at retirement (Column 3 x 360 months)
Total projected income Worksheet D, col 3 total, page 16				
Total projected expenses Worksheet F, col 3 total, page 25 Health Other than health				
Projected value of income less expenses Subtract line 2 from line 1				

Next move on to expenses in row 2, taking the total monthly expenses calculated in Worksheet F. For expenses other than health, go to Clue 3 (page 31) to select an inflation adjustment value factor. Use the 3.5 percent inflation rate (used in Worksheet F) or select another that you believe will reflect inflation over the 30 years of your retirement. For health, use the 7 percent inflation rate used previously or select another rate. Multiply this result by 360 and enter it in column 4. Subtract the total value of projected expenses ("other than health" and "health") over 30 years of retirement in Column 4 from the corresponding total value of your projected income (Column 4).

Here is an example of how this works:

Projected value of income:

$1,400.00 /month
x 0.5174 (5% rate of return, 0% inflation)
x 360 (months in 30 years)

$260,769.60

Projected value of expenses:

Health expenses
$200.00 /month
x 1.3691 (5% rate of return, 7% inflation)
x 360 (months in 30 years)

$98,575.20

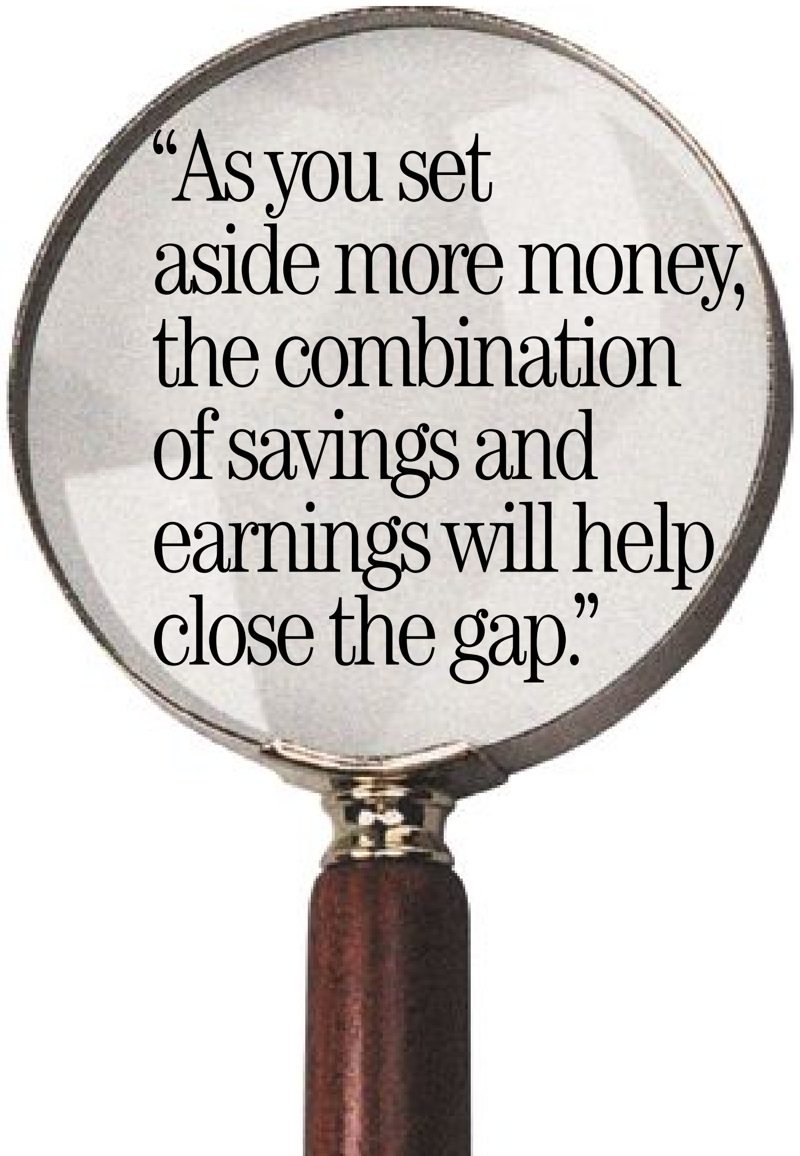
Other than health expenses
$700.00 /month
x 0.8054 (5% rate of return, 3.5% inflation)
x 360 (months in 30 years)

$202,960.80

Total projected value of expenses:
$301,536.00

$260,769.60 (value of income over 30 years)
-$301,536.00 (value of expenses over 30 years)

-$ 40,766.60 (shortfall)



CLUE 3

Value Adjustment Factors

INFLATION RATE	ASSUMED RATE OF RETURN 3%	5%	7%
0%	0.6589	0.5174	0.4175
1%	0.7517	0.5821	0.4636
2%	0.8638	0.6593	0.5179
3%	1.0000	0.7520	0.5825
3.5%	1.0789	0.8054	0.6194
4%	1.1661	0.8640	0.6597
5%	1.3698	1.0000	0.7524
6%	1.6207	1.1658	0.8642
7%	1.9309	1.3691	1.0000
8%	2.3161	1.6193	1.1655
9%	2.7962	1.9286	1.3683
10%	3.3968	2.3125	1.6179

If the result is negative, don't worry. Just about everyone will need to make up a shortfall in savings. Remember also, that it is difficult to project inflation rates, especially for health care, that far in the future. It is better, however, to have a rough idea of where you stand than have no guesstimate at all.

The good news is that time is on your side. Remember the effect of interest compounding and how it can work to make your money grow in 10 years. Each year, as you set aside more money, the combination of savings and earnings will help close the gap. Worksheet H lets you figure out how much you need to start to save today to make up the gap between projected income and expenses. Multiply the gap from Worksheet G by an additional savings factor you select from the top of Worksheet H, based on the rate of return you think you will earn.

For example:

$40,766.40 (gap from Worksheet G example above)
x 0.00644 (5% rate of return)

$262.54 /month to close the gap

Socking away that amount of money over the next 10 years, while getting a rate of return you're comfortable with, should go a long way toward matching up income and expenses over 30 years of retirement.

The good news is that you don't have to save the total amount of any gap between what you have and what you need. Each year the amount you invest will grow, and the growth of your savings lessens the amount you need to save.

WORKSHEET H

ADDITIONAL SAVINGS NEEDED BEFORE RETIREMENT (IN 10 YEARS)

Additional savings factors:

0.00716 for 3% 0.00644 for 5% 0.00578 for 7%

Gap between projected total value of expenses and projected total value of income (from Worksheet G)	1 $
Additional savings factor	2
Additional monthly savings needed (multiply line 1 x line 2)	3 $

Five Ways to Close the Gap

Where will you find additional savings? Here are some suggestions for active workers and retirees alike.

Number 1 - Work your contributions at work

Without exception, retirement planners advise contributing the maximum to your retirement plan, especially if your employer contributes too. If your contributions are made by salary deduction, saving is easier to do and may seem almost painless. And contributing more means postponing, or "deferring," taxes until you withdraw the money at retirement. Then you may be in a lower tax bracket.

Catch-up provisions for some retirement plans allow you to contribute extra amounts if you're over 50. Information about 401(k) catch-up contributions is available from your retirement plan administrator or on the Internet. If your plan has a catch-up provision, act on it now.

Number 2 - Work longer, retire later

Staying employed as long as possible benefits your retirement finances in several ways. Having an income gives your retirement savings more time to grow. A regular income could mean more regular savings. If you work for a company that provides health insurance, you won't have to fully pay for a policy yourself.

You don't have to stay at your same job if there are other opportunities. Maybe you want a new career, one that ties in to your personal interests. Longer life spans and better

CLUE 4

Saving: A Little Goes A Long Way

EXTRAS TO CONSIDER DOING WITHOUT	MONTHLY COST	SAVINGS OVER 10 YEARS AT A 5% RATE OF RETURN WITH ALL EARNINGS REINVESTED
Weekly dinner for two @ $50	$200	**$31,186**
Premium cable TV subscription	$80	**$12,474**
Movie and popcorn for two @ $32 twice a month	$64	**$9,998**
Daily lottery ticket	$30	**$4,678**

health mean many older people have the energy and enthusiasm employers are looking for, not to mention the skills and experience. Many people find the social benefits of working as important as the financial ones.

Number 3 - Cut expenses, big and little

Moving to a region with lower housing and living costs or moving to a smaller home can help narrow the savings gap. Another option is staying in your community but downsizing to a smaller place like a condo or apartment. The same factors that drove up the value of your current house, however, will also have driven up overall housing costs, including real estate taxes. Housing is a major part of everyone's budget so think carefully about where you want to be and whether you can afford it. Keep in mind, however, that moving includes its own financial expenses and means leaving friends, and your community.

Financial planners say that preretirement years are the wrong time to take on large debts, including home equity loans and high interest credit card debt. Buying a new car, boat, or vacation home is not wise if you need to save. Investing that $400 a month (on average 5-year car loan payment) and getting a 5 percent return would put more than $27,000 in your retirement account. Consider keeping your old car or buying a used one.

Preretirement is also the wrong time to give or "loan" large sums of money to your children and grandchildren. Their earning power is usually far better than yours. Now is the time to take care of your finances so you don't have to ask others to bear the financial burden for your care later on.

Number 4 - Social Security, now or later?

The amount of your monthly Social Security benefit goes up the older you are when you start receiving it. For example, a 61 year old man earning $60,000 in 2004 and eligible for his early Social Security benefit at 62 would receive an additional $1,000 a year by waiting 1 year, until he is 63, to collect his benefits. On the other hand, retirees who are seriously ill, who need the money immediately, or who feel comfortable investing their monthly checks may choose not to wait.

For example, a worker turning 62 in 2005 would have a full retirement age of 66 under Social Security. At full retirement, that person's benefit will be $1,281. If, however, that person starts to receive benefits at age 62, his/her monthly benefit would be reduced to $960. By waiting until age 70, that same worker's monthly benefit would be $1,690.

As a general rule, early retirement will give you about the same total Social Security benefits over your lifetime, but in smaller amounts to take into account the longer period you will be receiving them.

If you delay retirement beyond the full Social Security retirement age, you can earn retirement credits, increasing Social Security by a certain percentage (depending on date of birth) until you reach age 70.

Regardless of the age you start receiving Social Security benefits, remember to sign up for Medicare at age 65.

Number 5 - Put your money where the returns are

Educate yourself about investing and consider paying a professional to help you choose the right place for your money. Financial experts say too many people keep too much money in the wrong kinds of accounts, for example checking accounts, savings accounts, and money market funds, which typically have low interest or return rates. Review the discussion in Chapter 2 about asset allocation and diversification of investments.

Adding $200 a month, or $2,400 a year over 10 years to a starting retirement savings balance of $40,000 would more than double your money, assuming a 5 percent rate of return and all earnings reinvested.

CLUE 5

Closing The Gap

With $200/Month Additional Savings At 5% Per Year Over 10 Years

YEAR	START	ADD	RATE	YEAR END
1	$40,000.00	$200/month	0.05	**$44,512.50**
2	$44,512.50	$200/month	0.05	**$49,255.80**
3	$49,255.80	$200/month	0.05	**$54,241.90**
4	$54,241.90	$200/month	0.05	**$59,483.00**
5	$59,483.00	$200/month	0.05	**$64,992.30**
6	$64,992.30	$200/month	0.05	**$70,783.40**
7	$70,783.40	$200/month	0.05	**$76,870.80**
8	$76,870.80	$200/month	0.05	**$83,269.70**
9	$83,269.70	$200/month	0.05	**$89,995.90**
10	$89,995.90	$200/month	0.05	**$97,066.20**

Chapter 5

MAKING YOUR MONEY LAST

The point of all the calculations you have done in this booklet is to make sure your income will last a lifetime. If doing the worksheets has uncovered a gap between your retirement income and expenses, you probably will be changing some financial habits over the next 10 years. The only part of your retirement mystery that remains is deciding how you are going to make your retirement income last as long as you do. You will need a strategy.

Solving your retirement mystery has revealed that more saving (especially for medical costs), more investing, and less spending will boost your confidence and your financial bottom line as you near the end of your working life.

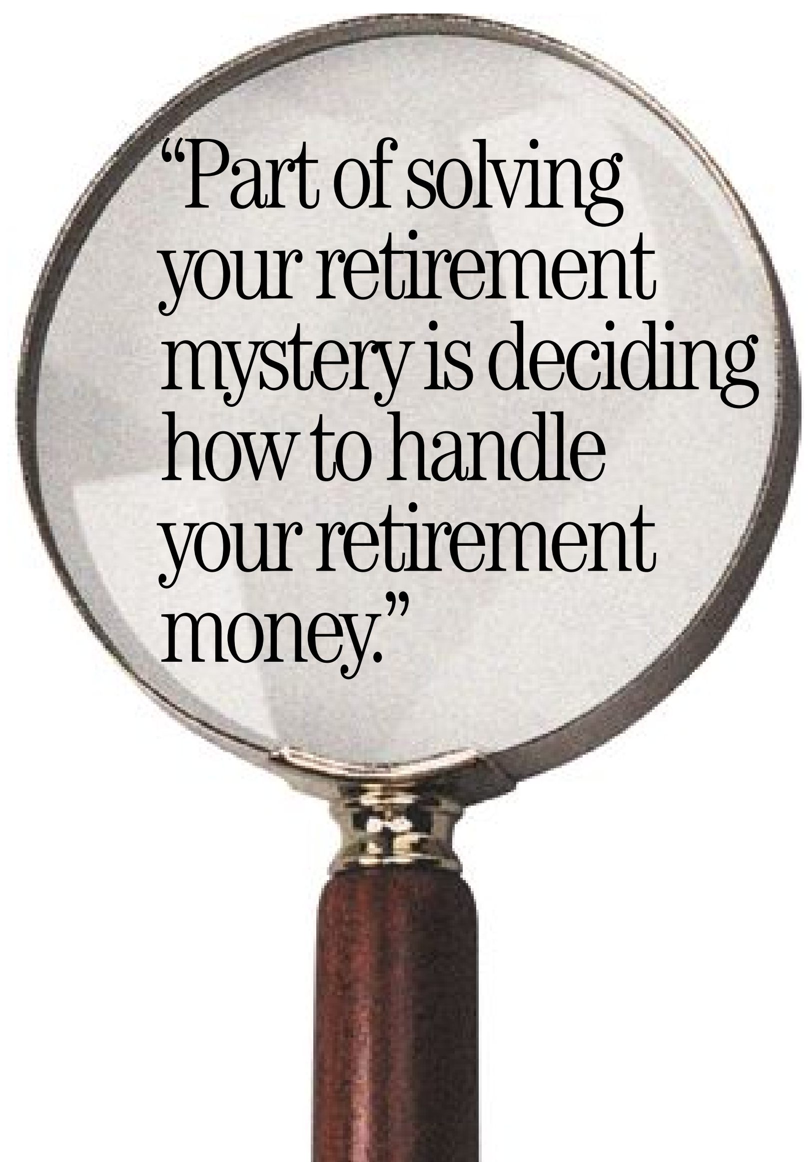
For now, you will probably need to focus on adding to your nest egg and on investing it wisely. Take into account you will also have income taxes to pay. Take the short tax quiz in this chapter to find out about minimizing your taxes in retirement.

You may also want to take a look at financial products and services that could help build some financial security into your retirement. But first, a word of caution. Because you're growing a nest egg, you may start hearing from people offering their own strategies for managing your retirement money. These people may be relatives and friends. You will also hear from strangers in phone calls, letters, and emails. Some may offer to double your money at no risk. Think long and hard about involving them in your financial affairs, unless they're qualified financial professionals and can be objective. Retirees are frequently targets for scams. Don't give out any personal information to strangers. Don't be a courtesy victim. Con artists will not hesitate to exploit your good manners. Save courtesy for friends and family members, not potential swindlers!

It's A Big Deal

"Having a strategy" may sound like retirement is a battle or a complicated business opportunity. You may be thinking, "What's the big deal? I'll just withdraw money when I need to pay bills." Your parents may have done fine by simply cashing their monthly Social Security and pension checks to live on. Their taxes on this income most likely were a lot simpler and a lot easier to do.

In today's world, keep in mind that the money you have saved and invested will be earning income until you withdraw it. Part of solving your retirement mystery will be deciding how to handle your retirement money, including continual investing, throughout your lifetime. Your tax situation, both federal and state, may not be so clear. You need to plan a withdrawal strategy so you pay less tax on money you take out of your retirement account and continue to grow the money you leave in. A qualified tax advisor can help here.



Getting Your Retirement Benefits

You may need to decide whether to take your pension or your retirement plan benefit in a lump sum or in an annuity. You can find out about your retirement plan payout options by reading your plan documents. Or you can contact the plan administrator directly for information about what your plan offers.

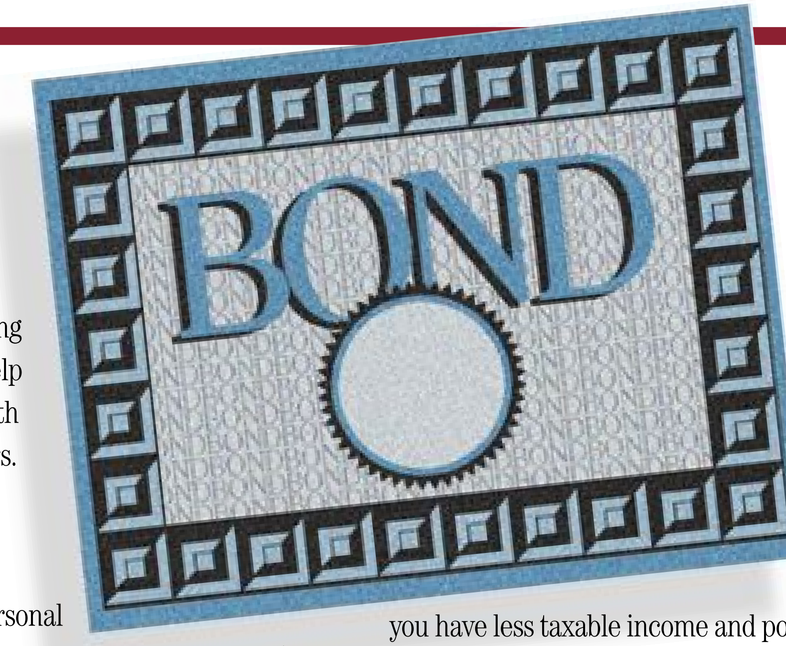
If you are in a traditional pension plan, your benefit is paid in the form of an annuity – that is, through periodic payments, typically monthly, for an extended period, usually your lifetime. If you select an option that provides for a survivor benefit for your spouse, note that your monthly benefit will be reduced. The survivor benefit is typically 50 percent of the retiree's benefit, but some plans provide for other options, such as 75 percent.

If you are in a defined contribution plan, such as a 401(k) plan, you do not automatically get your benefit as an annuity. Your retirement benefit can be taken as a lump sum – paid either entirely at the time of your retirement, or, as in some plans, through periodic payments over a short period of time, such as 3 or 5 years. Your plan may provide an annuity option or you may choose to buy an annuity with all or part of your lump sum benefit. If you choose to take your benefit in a lump sum, be sure to put it in a tax-deferred account, such as an IRA, within 60 days to avoid paying high income taxes (the highest tax being 35 percent as of 2004) on the amount. You will then have to decide how to invest what could be the most money you've ever accumulated and make sure it lasts for the 30 years of your retirement.

If you choose an annuity, make sure you realize the risks and rewards. An annuity provides a steady stream of income that lasts throughout your lifetime and can provide adjustments for inflation. This is helpful especially in the early years of retirement when there may be the temptation to spend the excess income instead of saving it to make sure it is there in 20 to 30 years. Keep in mind that if you die sooner than expected, however, the insurance company may keep the remaining balance unless you have opted for a survivor benefit. That is why annuities are usually not recommended for those with a shortened life span. Annuities come in many varieties. If you are purchasing one, choose an insurance company with a good credit rating and track record. Be sure you know what you're buying – there are costs involved in ending the contract. The more you learn upfront, the better.

You can also buy an annuity with money from other assets such as an inheritance or the sale of your house. Like other annuities, you will receive a monthly check for a defined period or for life. The tax treatment of these payouts will be different, however. Like any investment, review the terms of the annuity before you purchase it. For example, will the amount paid vary based on investment returns or is it fixed, what will you pay in related fees, etc.

Another way to make your money last is to obtain a reverse mortgage – essentially a bank loan based on the amount of the equity in your home. It can provide you with a monthly check, but at a cost. You are spending down the value of your home. If you can keep your house in good repair so the bank sees value in the loan, this is a way to supplement your income and not have to leave your home. When you or your heirs sell the house, however, the loan has to be repaid. Talk with the bank about any taxes due on these payments, and make your family aware of your reverse mortgage.

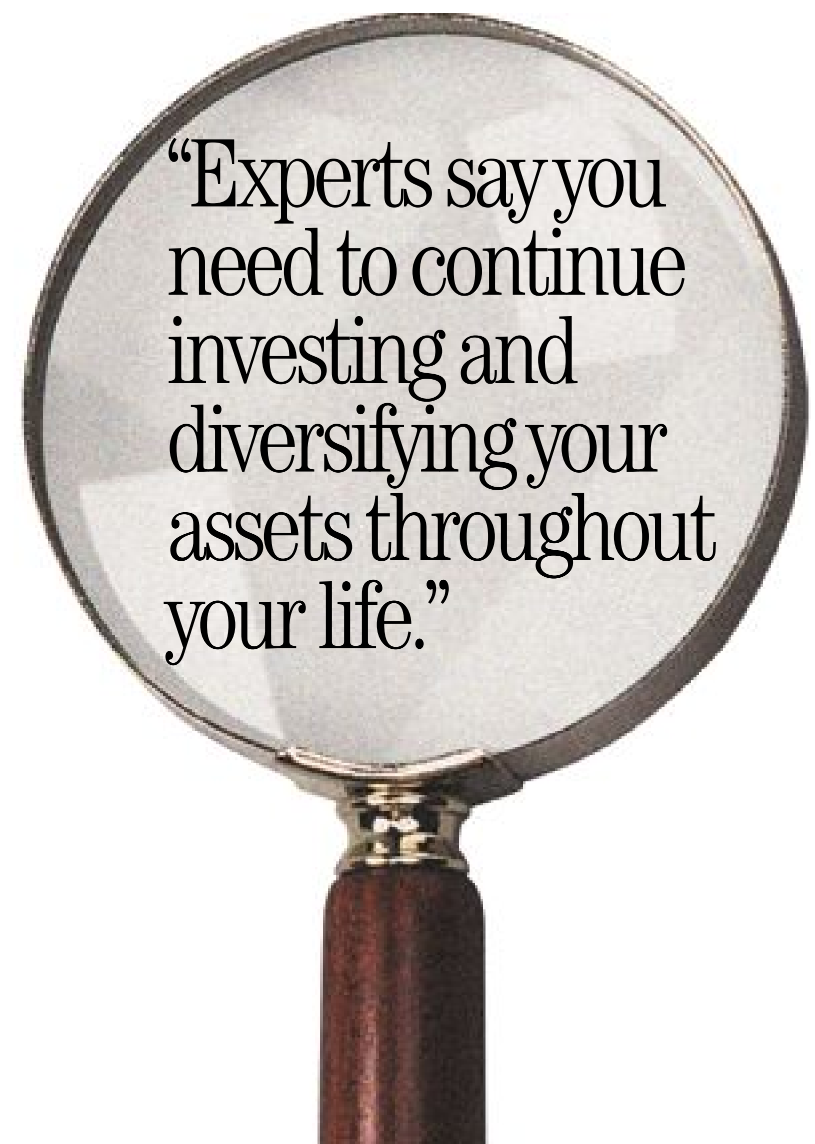


Also, remember long term care insurance can help you plan for increased health care costs in your later years.

Withdrawals: Which Pot?

You probably have some personal savings included in your retirement nest egg that you've already paid taxes on. A Roth IRA, for example, is a good place to leave money you've invested for growth because the withdrawals are not taxed. Retirement experts say you usually should withdraw from this pot of money earlier in retirement when you may be in a higher income tax bracket. Withdraw your taxable retirement plan money (such as your 401(k) or other workplace savings plan) later, when you have less taxable income and possibly higher deductions due to medical expenses.

Be aware, however, that the IRS requires you to start withdrawing tax-deferred money from retirement accounts when you turn 70 1/2 years of age. (This is a milestone on the *Retirement Timeline* at the beginning of this booklet.) By doing so, you will avoid tax penalties. These withdrawals are called "minimum required distributions," and the formula for determining the amount can be complicated. You may want to consult a tax expert for help.



Can You Beat It?

As you're withdrawing money to pay your bills in retirement, you should be trying to grow your remaining money to at least keep up with inflation. Of course, it's better to beat inflation. Experts say you need to continue investing and diversifying your assets throughout your life. Keeping your money in accounts paying guaranteed interest rates will keep it safe, but not from inflation. Inflation is a major threat to your financial future so make it a consideration in your investment decisions.

Going It Alone Vs. Getting Help

With a lot of study and regular attention to changes in tax laws, the economy, the stock market, and your money, you may be able to come up with a strategy to minimize taxes and maximize income. There's even software to help.

There's another road too. You can hire someone to develop your strategy and manage your money for you. Especially during the later years of your retirement, you may want to seek the help of a professional, when you may have less interest, energy, and ability to keep your strategy on target.

Good money managers, and the companies they work for and with, are required by law to be clear and open about their fees and charges and whether they are paid by commissions or for the sales of financial products, such as annuities and mutual funds. Be sure to ask questions, get references, and avoid anyone who guarantees performance on returns. This way you can make an informed decision. After all, it is your money you are putting in their hands.

Taxes & Retirement– True or False?

Income taxes go away when you're retired. True or False?

False. Remember all that pretax money you contributed to your retirement plan? When you withdraw it at retirement, you pay income taxes.

Social Security benefits are not sheltered from taxes. True or False?

True. A portion of your Social Security benefits are included in your taxable income if, for example, in 2004 you have taxable income and Social Security benefits of more than $25,000 for a single person and $32,000 for a couple.

There are no tax consequences if you don't start to withdraw your pretax savings at age 70 1⁄2? True or False?

False. There is a 50 percent tax penalty on amounts that the IRS requires to be taken out after age 70 1⁄2 and that are not withdrawn when required. In tax terms these are called "minimum required distributions."

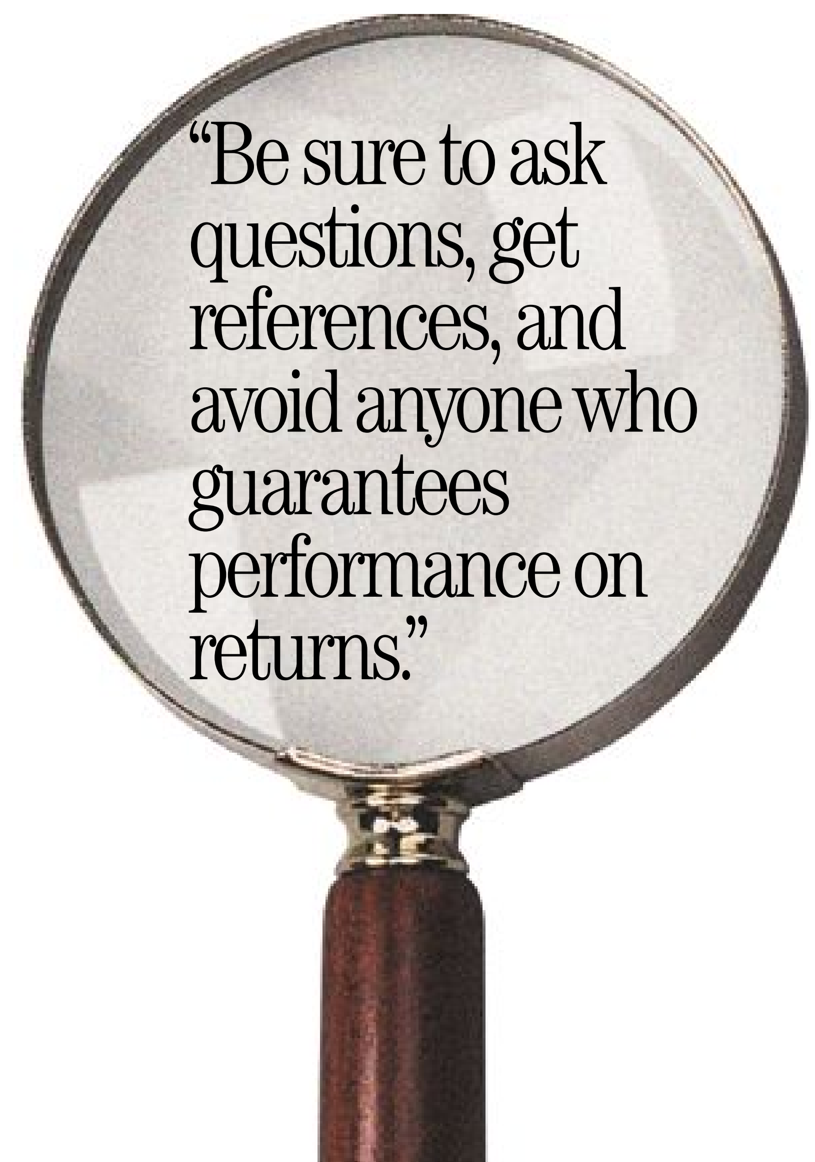
A Few Words About Scams

As you plan your retirement, don't let fear, desperation, or the need to catch up financially push you into any hasty investment decisions. In all legitimate investments, higher returns are accompanied by higher risks – risks you may well not want to take as you near retirement. Be wary of anyone who claims they can sell you a product that offers great reward without great risk -- a sure sign of a scam. Here are a few points to keep in mind when you make any financial decision:

Recognize that anyone can claim to be a "financial consultant" or "investment counselor." That person may not have the special training, expertise, or credentials necessary to back up the claim, however. Ask about licensing and professional designations and check them out with securities regulators and any trade groups in which they claim membership.

Understand your investments and never be afraid to ask questions. Good financial professionals are never pushy, and they never dismiss your concerns.

Don't let embarrassment or fear keep you from reporting suspected investment fraud or abuse. Contact the securities agency in your state as soon as you suspect a problem or believe you have been dealt with unfairly.



Never judge a person's integrity by how they sound or how they appear. The most successful con artists sound extremely professional and have the ability to make even the flimsiest investment seem as safe as putting money in the bank.

Monitor your investments. Ask tough questions and insist on speedy and satisfactory answers. Make sure you get regular written and oral reports. Look for signs of excessive or unauthorized trading of your funds when you receive statements, and do not be swayed by assurances that this kind of practice is routine.

Above all, become an informed investor. In investing, as in life, if it sounds too good to be true, it probably is.

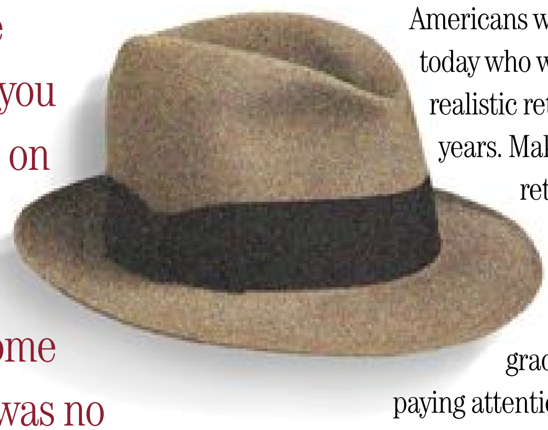
Now that you have tracked down all the clues pertinent to your retirement mystery, you've almost solved the case. In the next chapter, you will find several resources to turn to for more information. Take advantage of them.

Chapter 6

TRACKING DOWN HELP FOR RETIREMENT

Like a black and white TV, retirement used to have high contrast and few choices: One day you were working and the next day you weren't. One day you lived on a paycheck and the next day on pension and Social Security checks. Your income was fixed and retirement was no mystery.

You have the power to put some color, maybe even gold, in your retirement. It mostly means putting into action a plan to close the income-expense gap and manage your money smartly now and during your later years.



You won't be alone. In the next 25 years, one in five Americans will be over 65. That's a lot of people today who will be need to work on a clear and realistic retirement plan during the next 10 years. Make sure you're one of them so your retirement wishes come true.

In the following list of resources, you will find ways to discover more clues about retiring gradually and maybe working longer, paying attention to your assets and income, saving and investing, planning for increased expenses, including medical costs, and developing a withdrawal strategy. The information available on the Web sites listed is rich in detail and wide in scope. But remember to protect your privacy by not giving out personal information such as your Social Security number, telephone, or address, unless you know whom you're dealing with.

In fact, helping American workers succeed in a new kind of retirement has become the focus for a number of government agencies and organizations. Businesses selling products and services like annuities, long-term care insurance, and income management services are another source of information. To reach all these sources, use the Internet, your telephone, and the public library.

Periodically look back over the worksheets you have done and fill them out again as your finances change. Chart your progress through the next 10 years until retirement . . . and beyond. Get time on your side and get going.

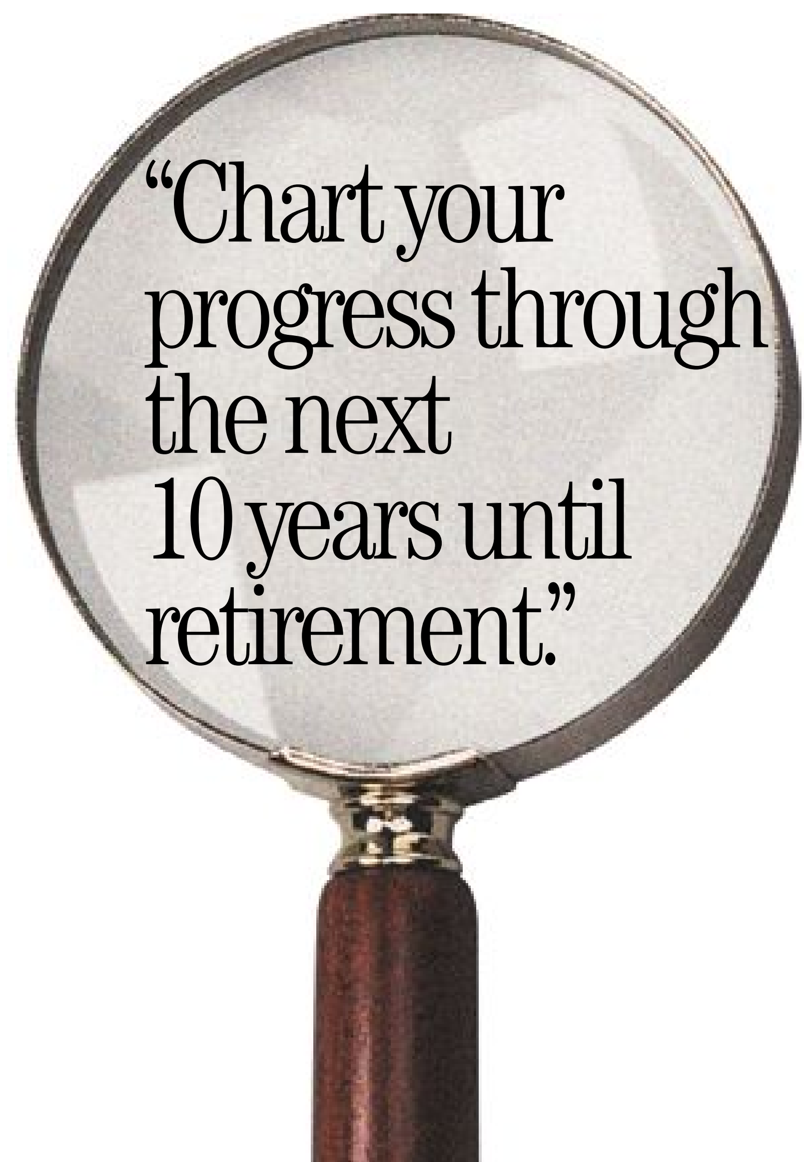
RESOURCES

This publication is presented by:

U.S. Department of Labor
Employee Benefits Security Administration
200 Constitution Ave., N.W., Washington, DC 20210
Web site: http://www.dol.gov/ebsa
Toll-free publication request line: 1-866-444-EBSA (3272)

North American Securities Administrators Association, Inc.
750 First St., N.E., Suite 1140, Washington, DC 20002
Web site: http://www.nasaa.org
(202) 737-0900

The Actuarial Foundation
475 North Martingale Rd., #600, Schaumburg, IL 60173
Web site: http://www.actuarialfoundation.org
(847) 706-3535



> "Chart your progress through the next 10 years until retirement."

The following Web sites, booklets, pamphlets, and other references are available from the organizations above and others that focus on retirement and savings issues.

Retirement Savings Calculators:

(Note: The Department of Labor does not endorse one specific Web site over another.)

http://www.moneymag.com

http://www.usnews.com

http://www.choosetosave.org

http://www.wiser.heinz.org
(special site for women and retirement)

Retirement Planning and General Retirement Issues:

http://www.dol.gov/ebsa

Savings Fitness . . .
A Guide to Your Money and Your Financial Future

Top 10 Ways to Save for Retirement

Women and Retirement Savings

What You Should Know About Your Retirement Plan

Request single copies by calling 1-866-444-EBSA (3272)

http://www.ssa.gov

The Social Security Administration Web site has on-line resources to help calculate your retirement benefits, and to learn about survivor benefits and Medicare. Two publications you may want to view or order:

Understanding the Benefits

What Every Woman Should Know

http://www.aarp.org
The AARP offers a wealth of information, including a fact sheet on reverse mortgages and a section on “Money and Work.”
Focus: Your Guide to Financial Planning for Retirement

Phone: 1-888-OUR-AARP (1-888-687-2277)

http://www.pbgc.gov
For those employees who may have worked for a company with a traditional defined benefit (DB) pension, the Pension Benefit Guaranty Corporation can assist in locating any money still in your account. Those with DB plans will also find these two booklets useful:
Your Guaranteed Pension

Finding a Lost Pension

Phone: 1-800 400-7242

http://www.nefe.org
Browse the Web site of the National Endowment for Financial Education (and especially the “Multimedia Access” section) for a wealth of preretirement information. Also view the following publication:
Guidebook to Help Late Savers Prepare for Retirement

Saving and Investing:

http://www.consumerfed.org
In addition to consumer fact sheets and studies, the Consumer Federation of America’s Web site offers a free savings brochure, *Six Steps to Six-Figure Savings*
Phone: 202-387-6121

http://www.sec.gov
The Securities and Exchange Commission Web site offers a menu of online “Investor Information” topics for consumer reference. View “Invest Wisely: Introduction to Mutual Funds,” “Questions You Should Ask About Your Investments,” and dozens of other titles.

http://www.mymoney.gov
This Web site is sponsored by the Financial Literacy and Education Commission, U.S. Department of the Treasury, and has among its offerings the *My Money Tool Kit*. You can order a copy online.

http://www.irs.gov/pub/irs-pdf/p590.pdf
The Internal Revenue Service’s *Individual Retirement Arrangements* is one of several guides to retirement plans that the agency offers.

http://www.pueblo.gsa.gov
The Federal Citizen Information Center Web site is your portal to government information, from car insurance to retirement savings. You can also order a free copy of the *Consumer Information Catalog* at this site.

http://www.360financialliteracy.org
A recent addition to the Internet is this site sponsored by the American Institute of Certified Public Accountants. The Web pages view finances throughout life – from childhood, to college, career, and retirement and estate planning.

Getting Help:

www.nasaa.org/investor_education/
This site alerts readers to the latest money scams and to any disciplinary rulings against individual financial advisors. The Web site also includes a section on investor education, including these this publication:
Protecting Your Finances: How to Avoid Investment Frauds and Scams.

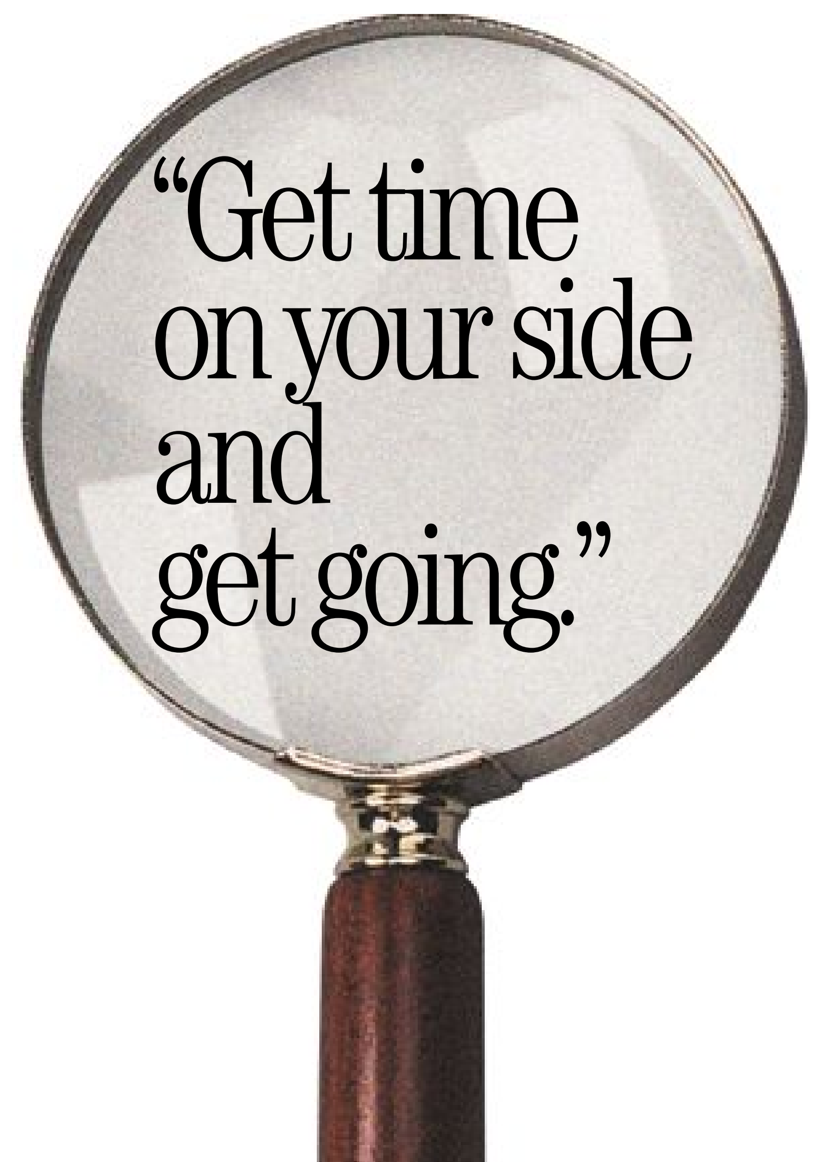
http://www.cfp.net/learn
The Certified Financial Planner Board of Standards Web site lets you look up a certified financial planner near you. The organization also distributes a free “Financial Planner Resource Kit.” 1-888-237-6275

http://www.napfa.org
This is the site for the National Association of Personal Financial Advisors, an organization of fee-only comprehensive financial professionals. The Web site also includes retirement planning information. 1-800-366-2732

http://www.actuarial foundation.org/
View the following two publications on this site.
Seven Life-Defining Financial Decisions

Making Your Money Last for a Lifetime: Why You Need to Know About Annuities

www.soa.org
The Society of Actuaries Web site (see "Research and Publications") links to informative articles in the group's publication, *The Actuary Magazine*.



http://www.ftc.gov/ftc/consumer.htm
The Federal Trade Commission’s site includes over two dozen fact sheets and brochures warning consumers about scam investments. View *Reverse Mortgages: Get the Facts before Cashing in On Your Home’s Equity* and others.

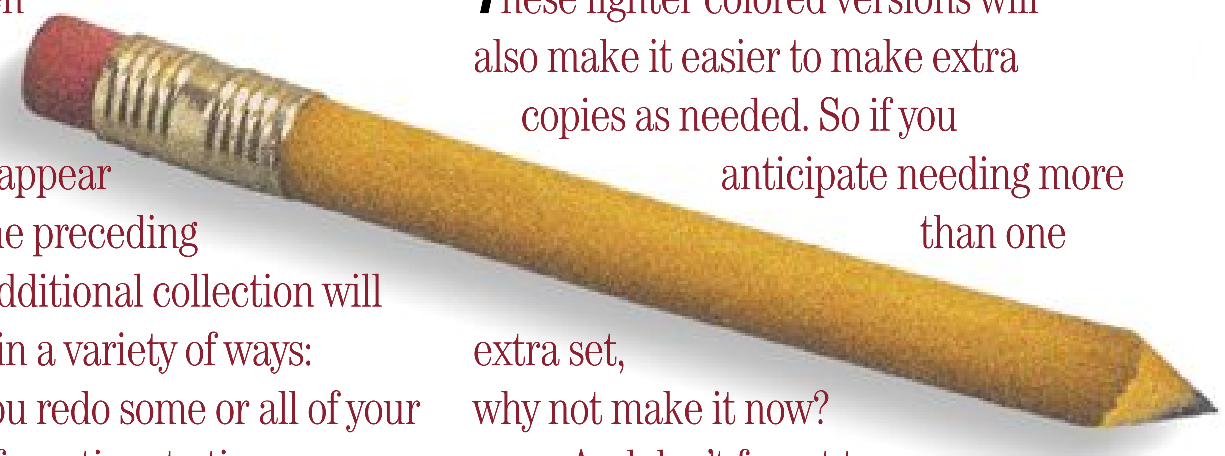
http://www.aoa.gov/eldfam/eldfam.asp
Topics from money to housing are included at this Administration on Aging “Resource Directory for Older People” site.

http://www.medicare.gov
http://www.ssa.gov/prescriptionhelp/
http://www.cms.hhs.gov/medicareform/
The Centers for Medicare and Medicaid Services (U.S. Department of Health and Human Services) site is your first and most reliable resources for information on Medicare. It includes information on billing, appeals, long-term care, and links to information on the new prescription drug program. These two publications address the new prescription drug card:
Introducing Medicare-approved Drug Discount Cards

Guide to Choosing a Medicare-approved Drug Discount Card.

WORKSHEETS FOR THE FUTURE

You have seen the following worksheets before. They appear on some of the preceding pages. This additional collection will prove useful in a variety of ways:



It will help you redo some or all of your calculations from time to time.

If you get a raise and add it to your savings, that's an ideal time to update Worksheet A (*Today's Money*).

Its abbreviated instructions will provide an extra level of understanding.

Do you plan to pay off a mortgage between now and retirement? This will also affect your worksheet calculations.

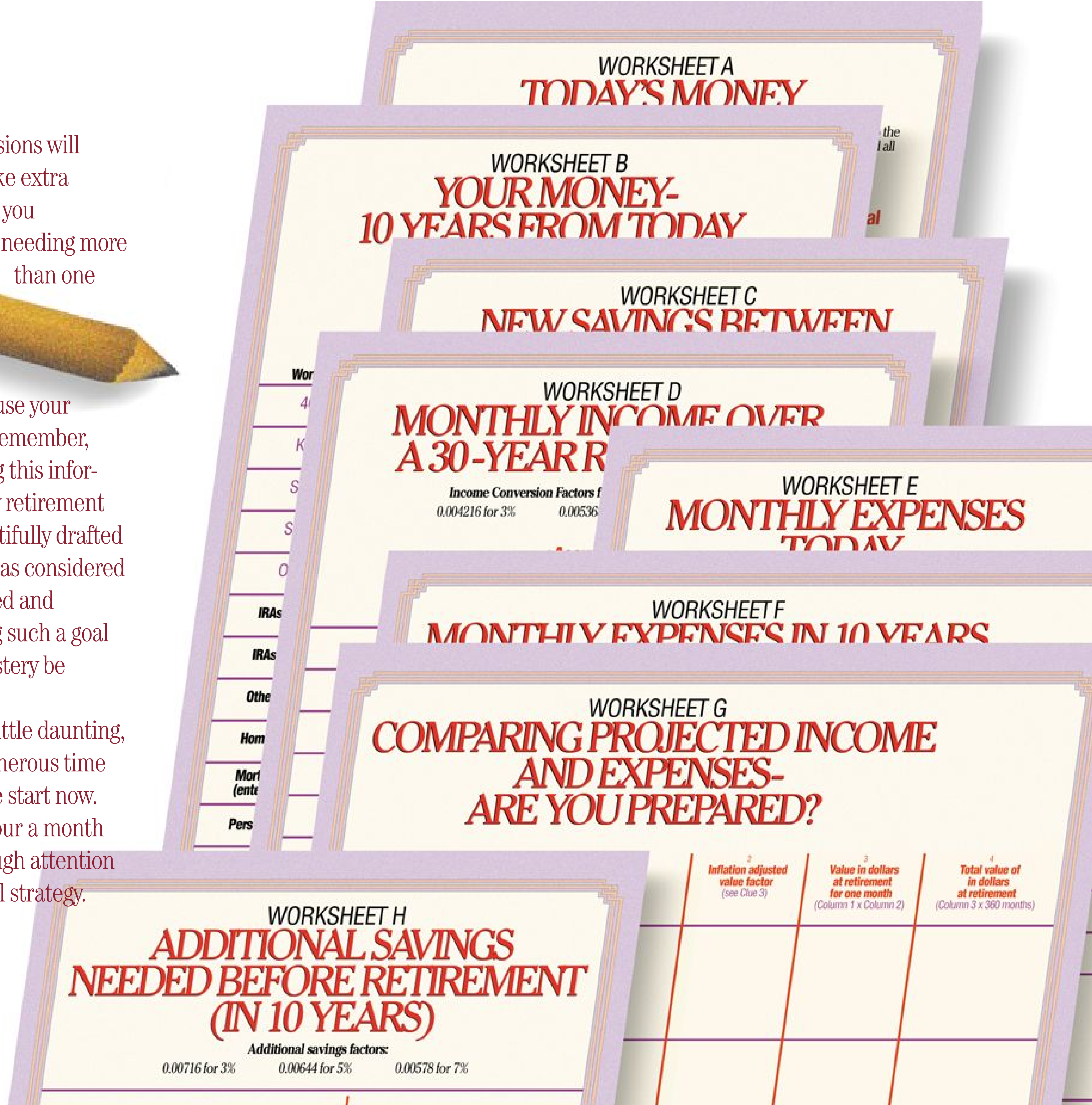
And each time you add more to savings, you close any gap between the money you have and the money you will need for retirement (Worksheet H).

Saving copies of all the worksheets will clarify the progress you are making toward your retirement goals.

These lighter colored versions will also make it easier to make extra copies as needed. So if you anticipate needing more than one extra set, why not make it now?

And don't forget to use your trusty number 2 pencil. Remember, the reward for completing this information should be a happy retirement future rather than a beautifully drafted plan. Done well, it will be as considered and accurate as it is erased and dog-eared. Accomplishing such a goal will require that each mystery be solved a clue at a time.

If all this sounds a little daunting, please don't forget our generous time frame – 5 to 10 years if we start now. Even devoting just one hour a month will allow more than enough attention to develop your successful strategy.



INSTRUCTIONS FOR WORKSHEET A

TODAY'S MONEY

Worksheet A lets you shine some light on the money you will have to support yourself (and your spouse, if you have one) in retirement.

Write down in this worksheet only the money you have today that you plan to use when you retire. Include the balance on your 401(k) plan, Keogh, SEP-IRA, and SIMPLE plans in the spaces provided. The next rows include savings in IRAs (both traditional and Roth), savings accounts in a bank, and the market value of your home.

Enter mortgage and other liens as a negative amount, then go on to add any other personal savings and investments you have, including the cash value of life insurance and any valuable collections you may have.

The only items you don't add in this chart are balances from your Social Security statements and from a traditional pension plan, if you have one.

INSTRUCTIONS FOR WORKSHEET B

YOUR MONEY- 10 YEARS FROM TODAY

This worksheet takes the total from Worksheet A and projects it into the future – specifically, to the day you retire. How much money will you have?

By choosing a savings growth factor for a 3, 5, or 7 percent rate of return, you can take current retirement saving sources and project earnings on each of them during the next 10 years. You will be able to transfer the dollar amounts for your income sources directly from Column 3 of Worksheet A. Multiply that number by the savings growth factor your choose and enter the new number in Column 3.

Like Worksheet A, Social Security benefits and traditional pensions are not include since you won't receive these sources of income until retirement.

INSTRUCTIONS FOR WORKSHEET C

NEW SAVINGS BETWEEN NOW AND RETIREMENT

You may well have additional workplace and personal savings to add to your earnings between now and retirement. Worksheet C lets you calculate potential growth using a savings growth factor representing 3, 5, or 7 percent rates of return, depending on how much you believe each of the worksheet items will increase in value between now and the day you retire in 10 years.

To get 10-year totals, multiply the amount you believe you will add monthly to IRAs, 401(k)s and other savings instruments by the growth factor your select. The result: the value of your new savings in 10 years.

WORKSHEET A

TODAY'S MONEY

Instructions: Record amounts for yourself and for your spouse in columns 1 and 2. Add up the money across each row for you and your spouse and write the total in column 3. Then add all the numbers down column 3 and write the total in column 3 at the bottom.

	1 You	2 Spouse	3 Total
Work-related retirement savings			
401(k) or 403(b)			
Keogh			
SEP-IRA			
SIMPLE IRA			
Other			
IRAs (traditional)			
IRAs (Roth)			
Other			
Home equity (market value)			
Mortgage and liens (enter as negative amount)			
Personal savings and investments			
Other assets (collections, etc.)			
TOTAL ASSETS			

WORKSHEET B

YOUR MONEY- 10 YEARS FROM TODAY

Asset Growth Factors for Three Selected Rates of Return

1.344 for 3% 1.629 for 5% 1.967 for 7%

Work-related retirement savings	1 Current $ value (from Worksheet A, Column 3)	2 Asset growth factor (rate of return)	3 Asset value in 10 years (Column 1 x Column 2)
401(k) or 403(b)			
Keogh			
SEP-IRA			
SIMPLE IRA			
Other			
IRAs (traditional)			
IRAs (Roth)			
Other			
Home equity (market value)			
Mortgage and liens (enter as negative amount)			
Personal savings and investments			
Other assets (collections, etc.)			
TOTAL ASSETS			

WORKSHEET C

NEW SAVINGS BETWEEN NOW AND RETIREMENT

Savings Growth Factors for Three Selected Rates of Return

139.741 for 3% 155.282 for 5% 173.085 for 7%

Work-related retirement savings	1 Estimated monthly savings amount	2 Savings growth factor	3 Value of savings in 10 years (Column 1 x Column 2)
401(k) or 403(b)			
Keogh			
SEP-IRA			
SIMPLE IRA			
Other			
IRAs (traditional)			
IRAs (Roth)			
Other			
Home equity (market value)			
Mortgage and liens (enter as negative amount)			
Personal savings and investments			
Other assets (collections, etc.)			
TOTAL ASSETS			

INSTRUCTIONS FOR WORKSHEET D

MONTHLY INCOME OVER A 30-YEAR RETIREMENT

Worksheet D takes your earnings and savings over a lifetime and projects a monthly income – the amount you will have to live on – during a 30-year retirement period. Unlike previous worksheets, this one adds the amount of your Social Security benefit and of any payout from a traditional pension plan.

If you have a fixed pension (rather than an employer 401(k)-type plan), your pension plan administrator or union can give you the approximate amount of your pension and whether you can receive it as a lump sum or as fixed monthly payments. If it is a lump sum, enter that amount in Column 1 of the worksheet; if you receive it as a fixed monthly benefit, fill in only Column 3.

For other assets, those you tracked down in Worksheets B and C, add the totals for each item from both worksheets and enter the total in Column 1 of this worksheet. Then select an income conversion factor representing a 3, 5, or 7 percent rate of return and enter it in Column 2. Multiple Column 1 by Column 2 and enter the result in Column 3. Remember, this is a guesstimate of your monthly income for the 30 years of retirement since things that impact your income will vary.

WORKSHEET D

MONTHLY INCOME OVER A 30-YEAR RETIREMENT

Income Conversion Factors for Assumed Rates of Interest

0.004216 for 3% 0.005368 for 5% 0.006653 for 7%

	1 Accumulated assets (Column 3 from Worksheet B plus Column 3 from Worksheet C)	2 Income conversion factor	3 Monthly income beginning at retirement (Column 1 x Column 2)
Social Security			
Work-Related Retirement Savings			
Pension benefits			
401(k) or 403(b)			
Keogh			
SEP-IRA			
SIMPLE IRA			
Other			
IRAs (traditional)			
IRAs (Roth)			
Home equity (market value)			
Mortgage and liens (enter as negative amount)			
Personal savings and investments			
Other assets (collections, etc.)			
TOTAL ASSETS			

INSTRUCTIONS FOR WORKSHEET E

MONTHLY EXPENSES TODAY

Now that you know what your savings and investments are, the next step is to move on to today's expenses. Worksheet E calculates what you spend today.

Some monthly expenses are easy to figure. Others, like a heating bill, may not remain the same from month to month and will require a calculation of your average monthly bill over a year's time. Still other bills may arrive only quarterly. While you may want to guesstimate some of these bills the first time you fill in the worksheets, you will probably want to add more accurate figures later.

If you are married, include your spouse's expenses; in addition, if anyone is financially dependent on you, add in those expenses.

WORKSHEET E

MONTHLY EXPENSES TODAY

	Monthly Amount [1]
Housing	
Mortgage (Including condo fees)	
Rent	
Maintenance	
Food (at home)	
Utilities	
Electricity	
Heat	
Internet/cable	
Phones	
Water/sewer	
Clothing	
Taxes	
Real estate	
Income (state and federal)	
Other property taxes	
Insurance	
House	
Life	
Car	
Disability	
Long-term care	

	Monthly Amount [1]
Loans	
Car	
Credit card	
Other	
Workplace retirement and personal savings	
Personal Care	
Hair cut	
Dry cleaning	
Gym	
Other	
Transportation	
Car repairs and maintenance	
Gas	
Parking	
Public transportation	
Health Care	
Health insurance	
Doctor visits	
Hospital	
Medicine	
Over-the-counter medicine	

	Monthly Amount [1]
Health Care (continued)	
Dental	
Vision	
Noncovered items	
Travel/vacations	
Entertainment	
Eating out	
Hobbies	
Movies/theatre	
Charitable contributions	
Other	
Gifts	
Membership dues	
Pet-related costs	
TOTAL ESTIMATED MONTHLY EXPENSES (other than health)	
TOTAL ESTIMATED MONTHLY EXPENSES (health)	

WORKSHEET F

MONTHLY EXPENSES IN 10 YEARS

(First year of retirement)

	1 Total monthly expenses now (from monthly expenses column in Worksheet E)	2 10-year inflation factor of 1.4106 (3.5%) (except for health care)	3 Total expenses in 10 years adjusted for inflation (Columns 1x2)
Housing			
Mortgage (Including condo fees)			
Rent			
Maintenance			
Food (at home)			
Utilities			
Electricity			
Heat			
Internet/cable			
Phones			
Water/sewer			
Clothing			
Taxes			
Real estate			
Income (state and federal)			
Other property taxes			
Insurance			
House			
Life			
Car			
Disability			
Long-term care			

	1 Total monthly expenses now (from monthly expenses column in Worksheet E)	2 10-year inflation factor of 1.4106 (3.5%) (except for health care)	3 Total expenses in 10 years adjusted for inflation (Columns 1x2)
Loans			
Car			
Credit card			
Other			
Workplace retirement and personal savings			
Personal Care			
Hair cut			
Dry cleaning			
Gym			
Other			
Transportation			
Car repairs and maintenance			
Gas			
Parking			
Public transportation			
Health Care		For a 7% inflation factor, use 1.9672	
Health insurance			
Medicare Part B			
Medigap			
Doctor visits			
Hospital			
Medicine			
Over-the-counter medicine			

WORKSHEET F CONTINUED

MONTHLY EXPENSES IN 10 YEARS

(First year of retirement)

	1 Total monthly expenses now (from monthly expenses column in Worksheet E)	2 10-year inflation factor of 1.4106 (3.5%) (except for health care)	3 Total expenses in 10 years adjusted for inflation (Columns 1x2)
Health Care (continued)			
Dental			
Vision			
Noncovered items			
Travel/vacations			
Entertainment			
Eating out			
Hobbies			
Movies/theatre			
Charitable contributions			
Other			
Gifts			
Membership dues			
Pet-related costs			
TOTAL MONTHLY EXPENSES ADJUSTED FOR 10 YEARS INFLATION (other than health)			
TOTAL MONTHLY EXPENSES ADJUSTED FOR 10 YEARS INFLATION (health)			

INSTRUCTIONS FOR WORKSHEET F

MONTHLY EXPENSES IN 10 YEARS

Inflation will increase your expenses, even in the 10 years between now and retirement. Worksheet F helps you calculate how much inflation might affect each of the items in the expenses you recorded in Worksheet E. In addition, it adds room for some new types of health-related expenses, a category that usually increases for retirees. This chart assumes an inflation rate of 3.5 percent for items other than health-related expenses and assumes a 7 percent inflation rate for health expenses.

Note: Many mortgage and some loan payments have already taken into account the rate of inflation. If you have a fixed mortgage or loan, you will not need to do the calcultion for this item.

WORKSHEET G

COMPARING PROJECTED INCOME AND EXPENSES- ARE YOU PREPARED?

	1 At retirement	2 Inflation adjusted value factor (see Clue 3)	3 Value in dollars at retirement for one month (Column 1 x Column 2)	4 Total value of in dollars at retirement (Column 3 x 360 months)
Total projected income Worksheet D, col 3 total				
Total projected expenses Worksheet F, col 3 total Health Other than health				
Projected value of income less expenses Subtract line 2 from line 1				

INSTRUCTIONS FOR WORKSHEET G

COMPARING PROJECTED INCOME AND EXPENSES

This worksheet compares your anticipated income and expenses over the 30 years of your retirement and will reflect any shortfall between the two.

Use the total monthly income calculated in Worksheet D and multiply it by a value adjustment factor you select from Clue 3 on page 31. Select the rate of return with a 0 percent inflation rate. Then mutiply this result by 360 months and enter that amount in Column 4 of Worksheet G. This is your toal projected income.

Next, record the total monthly expenses calculated in Worksheet F. For expenses other than health, choose an inflation adjustment value factor from Clue 3 on page 31. Use the 3.5 percent inflation rate (used in Worksheet F) or select another that you believe will reflect inflation over the 30-years of your retirement.

For health, use a 7 percent inflation rate or select another rate. Multiply this result by 360 months and enter it in Column 4. Now subtract the total value of projected expenses ("other than health" and "health") over 30 years of retirement in Column 4 from the corresponding total value of your projected income (also in Column 4). The result is the projected value of income less expenses.

INSTRUCTIONS FOR WORKSHEET H

ADDITIONAL SAVINGS NEEDED BEFORE RETIEMENT (IN 10 YEARS)

Now you can figure the amount you need to start to save today to make up for any gap between projected income and expenses.

Multiply the gap in Worksheet G by an additional savings factor you select from the top of Worksheet H based on the rate of return you believe your savings will earn.

WORKSHEET H

ADDITIONAL SAVINGS NEEDED BEFORE RETIREMENT (IN 10 YEARS)

Additional savings factors:

0.00716 for 3% 0.00644 for 5% 0.00578 for 7%

Gap between projected total value of expenses and projected total value of income (from Worksheet G)	1 $
Additional savings factor	2
Additional monthly savings needed (multiply line 1 x line 2)	3 $