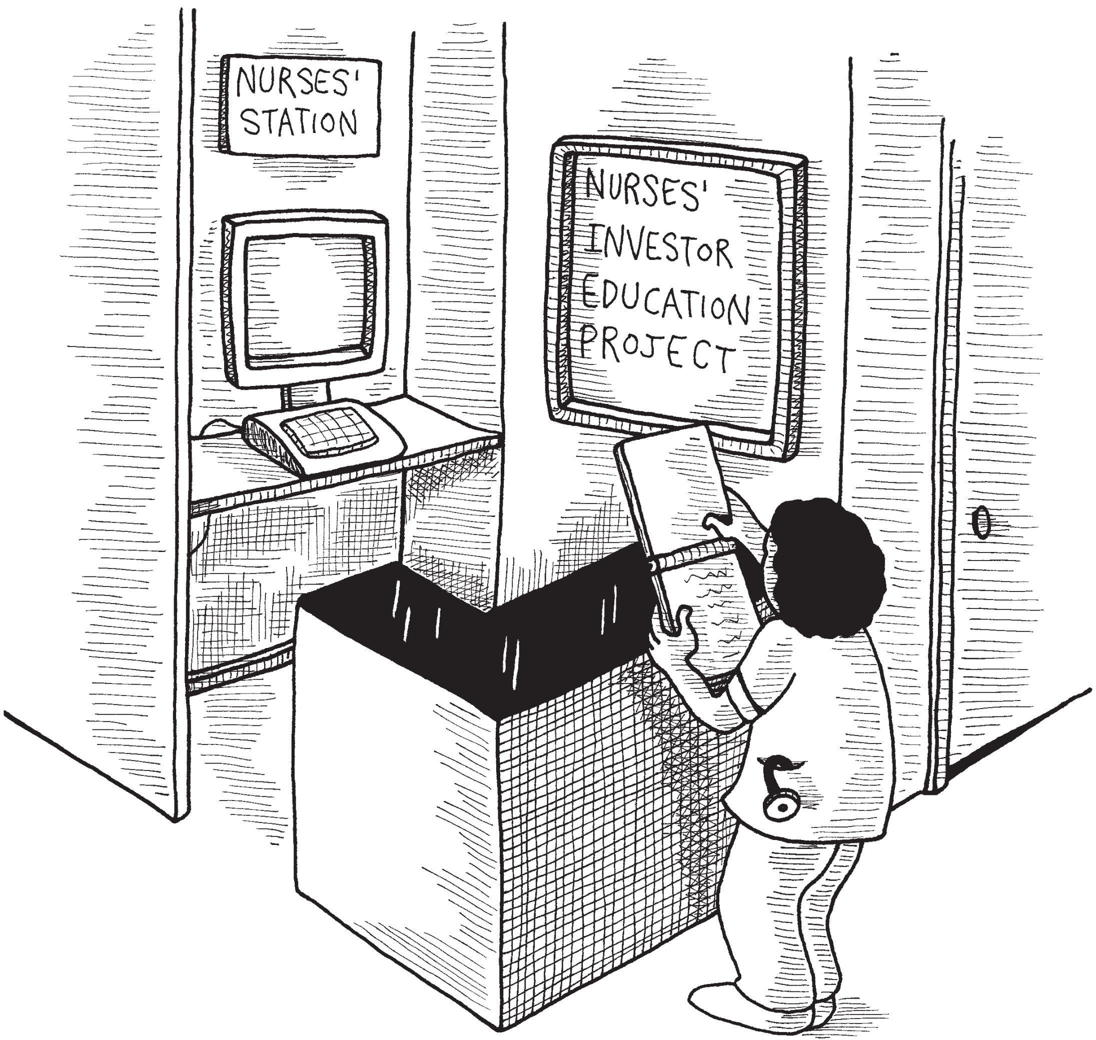
Nurses Retirement Decision-Making Guide



A Joint Project of the Center for American Nurses and WISER, the Women's Institute for a Secure Retirement

WISER

THE WOMEN'S INSTITUTE FOR A SECURE RETIREMENT

The Nurses' Investor Education Project is a joint project of the Center for American Nurses and WISER, the Women's Institute for a Secure Retirement, with funding from the FINRA Investor Education Foundation.

WISER is a 501(c)(3) organization, established in 1996 by the Heinz Family Philanthropies to improve the opportunities for women to secure retirement income.

The Center for American Nurses is a national professional nursing organization that educates, equips, and empowers nurses to advocate for themselves, their profession, and their patients.

The FINRA Investor Education Foundation provides underserved Americans with the knowledge, skills and tools necessary for financial success throughout life. It is the largest foundation in the U.S. dedicated to investor education.

CENTER for American Nurses™
Serving the Needs of Nurses Today & Tomorrow

Retirement Readiness

Seven Questions to Help You Prepare

1. **Have you considered what annual income you will need in retirement?** Is it 75 percent of what you earn now? It could be more or less than that, depending on your basic needs. Remember that Social Security usually covers about 40 percent of an average earner's pre-retirement income. You need to know where the rest of the money will come from.

2. **Have you considered how long you might live in retirement?** Many people do not realize that retirement can last 20 to 30 years. It is important when planning to assume that you will have a long life in retirement.

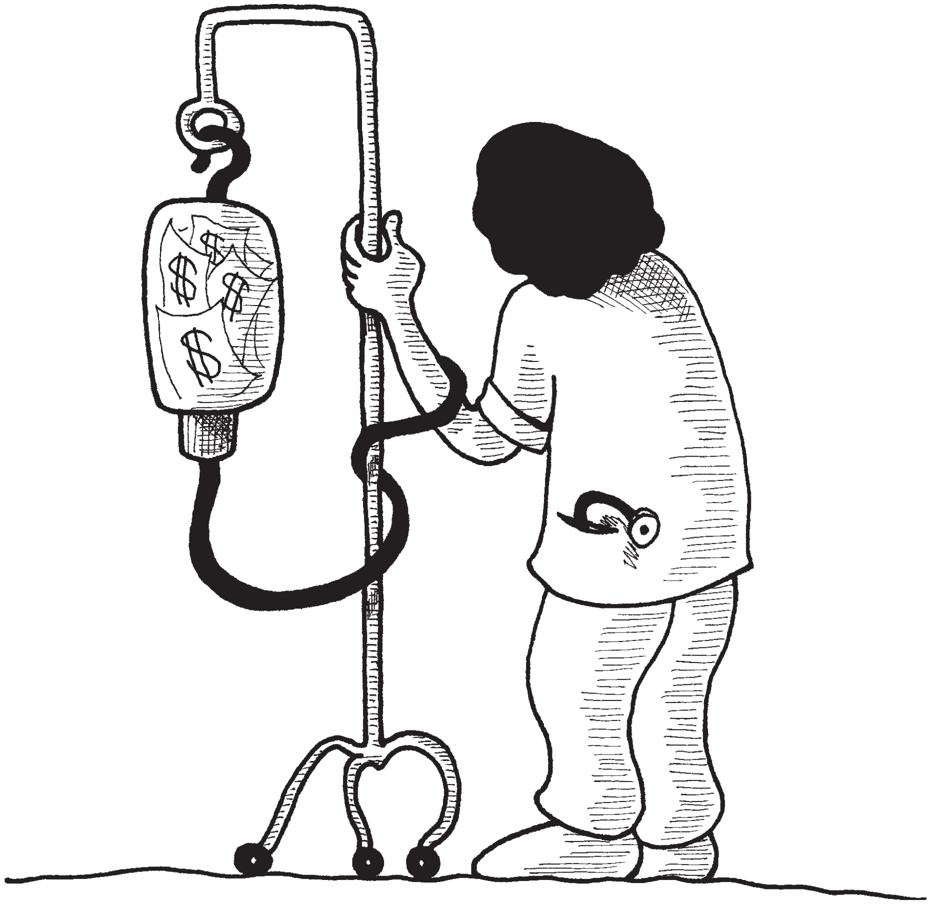
3. **Have you considered the cost of Medicare premiums?** They are automatically deducted from your Social Security check. For 2009, the Medicare premium is $96.40 a month.

4. **Have you considered the cost of health insurance outside of Medicare?** You may consider purchasing a "Medi-gap" policy in order to cover the costs that Medicare does not cover.

5. **Have you considered how you will pay for long-term care?** Medicare does not pay for extended nursing home care. Planning now for long-term care needs will help you have more independence, choice and control in the future. Consider the options available through long-term care insurance.

6. **Have you thought about how you will handle your savings once you retire?** If you have saved through a 401(k) type plan, you will be responsible for managing your own money, or hiring someone to help you do it.

7. **Do you know how taxes will affect your retirement income?** If you receive money from a tax-deferred savings plan such as a 401(k), you will need to pay taxes on the amounts you receive. You also may have to pay taxes on your Social Security benefits.



Planning for Retirement

The income that you have to support you during retirement generally comes from a combination of Social Security, employer retirement plans, and personal savings.

Social Security offers a base layer of protection, but is not meant to be enough by itself to provide a comfortable retirement. About half of the workforce today is covered by employer-sponsored retirement plans and, for many reasons, those plans are not usually enough to provide sufficient income throughout retirement.

As a result, personal savings are a very important source of retirement income, whether or not you have an employer-provided plan. And, the sooner you start saving, the longer those savings have to grow.

Saving for Retirement

If you want to have adequate funds for your retirement years, you need to save during your working years.

READINESS STEPS

Your basic steps are:

- Make a rough estimate of the total retirement income you'll need—consider using an online calculator.
- Estimate how much income you can expect from Social Security, employer plans, and personal savings.
- Make a plan to start saving enough to make up the difference.

DECISIONS

Each person has to decide what amount they will need to have adequate retirement income. As you near retirement, reconsider your earlier estimates of what income you'll need. Your estimate will depend on a number of factors, including whether you will have monthly payments for a home mortgage or rent, or health insurance to supplement Medicare.

One rule of thumb is to save 15 percent of your pay over a long period for retirement. However, if you start later, you will need to save a higher percentage of pay. Don't get discouraged if you can't save that much. It is important to start saving what you can now, and increase the amount you save later if you can.

Age when you start saving	% of pay you need to save *
25	9.4%
35	13.3%
45	20.4%
55	39.6%

* Based on replacing 70% of pay after age 65, assuming 7% interest, 5% annual pay increases, and 3% inflation. Today, experts suggest saving enough to have 100% of your final pay.

Individual Retirement Accounts (IRAs)

An IRA is a great place to start saving for the long haul.

You can establish an IRA at a bank or other financial institution or through a mutual fund company.

With a traditional IRA, you can get an income-tax deduction on the amount you contribute if you meet the income limits established by the Internal Revenue Service. Your money grows tax-deferred, so you don't pay any taxes until you take the money out. Even if you don't qualify for the deduction on the amount contributed, you can take advantage of an IRA to allow your money to grow tax-deferred.

With a Roth IRA, you don't get an income tax deduction when you contribute to the IRA. However, you won't owe any taxes on the money when you take it out, so the investment grows tax-free.

An individual can contribute $5,000 a year to an IRA. If you are age 50 or older, you can contribute $6,000 a year. A married couple can each put in the individual amount. For example, if you are both 50 or older, you can contribute a total of $12,000 a year. These contribution limits will be increasing over the next several years, so if you're one of the lucky ones with more money to save, look into how much more you can put into an IRA.

However, only a small percentage of the workforce put any money into an IRA. Keep in mind that you can put in less. $500 or $1,000 a year will get you started. It may be easier to set up an IRA arrangement that will automatically transfer, say $50 a month from your checking or savings account to an IRA, than to make a single large payment each year.

You can open an IRA with a mutual fund or bank, and choose where to invest your IRA contributions. For example, they can go into a CD or mutual fund.

You also can roll over an employer retirement account into a traditional IRA. If you roll over funds to a Roth IRA, you must pay income tax on the amount of the transfer.

Using Retirement Funds Before You Retire - Lump Sums and Loans

Many retirement or savings plans let you withdraw money when you change jobs or retire. Resist the temptation to spend it for non-retirement purposes.

READINESS STEPS

The wiser rule of the road is to leave your money in the employer's retirement plan or roll it into an IRA when you change jobs.

If you cash out the amount of money that you have in a defined contribution plan, you will owe income taxes and, in most cases, a 10% IRS penalty. Early in your career, the amounts distributed look small and it's easy to find many ways to spend the money. However, if you leave it there, it can grow into a substantial amount by retirement. For example, a $5,000 lump sum at age 25 will grow into $74,872 by age 65 if it earns 7% interest.

A more difficult question is whether you should break the rule of leaving your money untouched and use it to pay off a high-interest credit-card debt. Let's take an example of someone with $10,000 of credit-card debt, being charged an interest rate of 18% and paying $1,800 a year in interest payments alone. That individual could use a $10,000 lump sum (after taxes and penalties) to pay off the credit cards. This only works if this individual forever becomes a savvy credit-card user and is committed to a new long-term savings plan.

DECISIONS

When you take money out of an IRA or 401(k) plan before you reach age $59^1/_2$, unless you meet one of the exceptions under the law, you'll owe income tax (federal, state, and local, as applicable) plus a 10% penalty to the IRS for early withdrawal.

When you leave an employer with a traditional pension plan, you may be able to choose to receive a lump sum payment. You can avoid taxes and the IRS penalty by rolling the lump sum payment directly into an IRA. If you have the choice, it may be best to leave the money right where it is, particularly if you can choose to receive a lifetime, guaranteed monthly pension benefit at retirement.

Your Retirement - When and How

Many of us cannot wait to retire. However, when you are thinking about retiring, think through the details of how you are going to pay for it.

READINESS STEPS

When planning to retire, take a careful look at all your savings and benefits. Ask the Social Security Administration to provide an up-to-date estimate of your benefits, including estimates of how much you can get at full retirement age, and at earlier and later ages. Get estimates of any pension benefits, when they can start, and whether they would increase if you waited a few years longer.

For people who want to retire before Medicare eligibility (age 65), health insurance for those early years can be very costly. Even with Medicare, prescription drug and long-term care expenses can be enormous.

Keep in mind that during the years you are retired, inflation will make everything cost more, especially medical care.

For couples, find out which benefits would continue to each of you as a widow or widower, and how much they will be.

DECISIONS

Pension Benefits

If you have a traditional pension, ask for an estimate of what monthly benefit you can receive at full retirement age and as an early retirement benefit. If either you or your spouse has a pension plan, when you apply for retirement you need to decide whether you want the benefit to continue to a surviving widow or widower. For example, when you apply for benefits, your spouse has to consent to give up survivor's benefits, signing a statement that he or she understands that pension benefits will not continue if you should die first.

If you have a defined contribution plan and/or personal savings, try to estimate how you will make those savings last throughout your retirement. It can be very difficult to estimate your retirement income needs and how long you will live. Consider purchasing an immediate annuity, which can guarantee payments for as long as you live.

With both types of retirement plans, you may have a choice about how you receive the benefit — a lump sum payment all at once, or as an annuity with payments spread out over your lifetime, or other variations.

Making Your Money Last through Your Retirement - Immediate Annuities

It can be quite challenging to manage your life savings after retirement because there are many unknowns. Few of us have really thought about how to make our retirement savings last for 20 or 30 years after we stop working.

READINESS STEPS

Immediate annuities give you guaranteed income for life. You buy the annuity with one single payment. In return, the insurance company will provide you with a guaranteed lifetime income, regardless of how long you live. There are two types of immediate annuities:

- fixed immediate annuities, which pay you a fixed amount each month; and
- variable immediate annuities, which also pay you income as long as you live, but the amount varies based on what you choose to invest in, like the stock market.

Immediate annuities have different payment options. You can choose to receive payments for your life only, for your life plus a survivor benefit, or with a "period certain" so that if you die before, for example, a 10 year period certain, your beneficiary will receive the balance. There are other options, as well.

You probably don't want to put all your retirement savings into an annuity. However, for many people who are age 70 or older, it makes sense to put part of your savings into an annuity. This is especially true if you are in good health and want the certainty of knowing you will receive monthly payments for as long as you live.

Immediate annuities should not be confused with deferred annuities, which are used primarily to accumulate funds while you are working.

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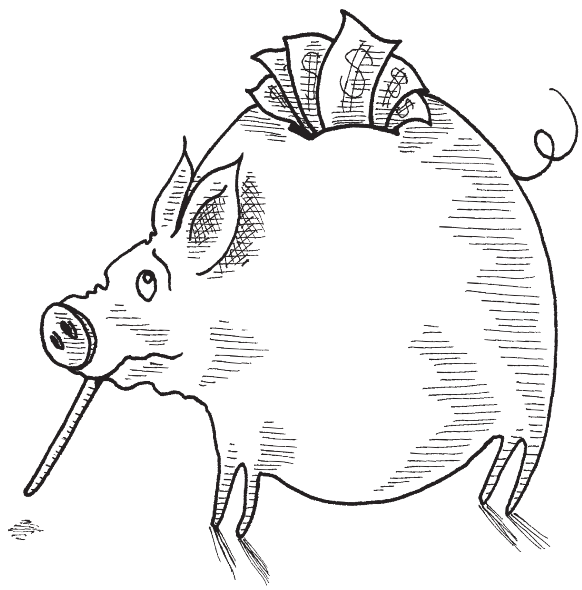
Ron Gebhardtsbauer's mother had money in an IRA when she turned 70 and started taking out the minimum amount that the government required her to take each year. Ron convinced his mother to look into purchasing an immediate annuity. She did, and was pleasantly surprised to find that she will be getting more money each year, and she doesn't have to worry about it running out, even if she lives a long time.

DECISIONS

After retirement, consider whether you want to manage your money yourself. One way to do this is to set up a program to draw money on a regular basis from your retirement savings. Consider the pros and cons of using some of your money to buy an immediate annuity to provide you with payments for the rest of your life. For additional information on whether an immediate annuity might be right for you, read WISER's booklet "Making Your Money Last for a Lifetime: Why You Need to Know About Annuities."



Add Up Your Sources of Retirement Income

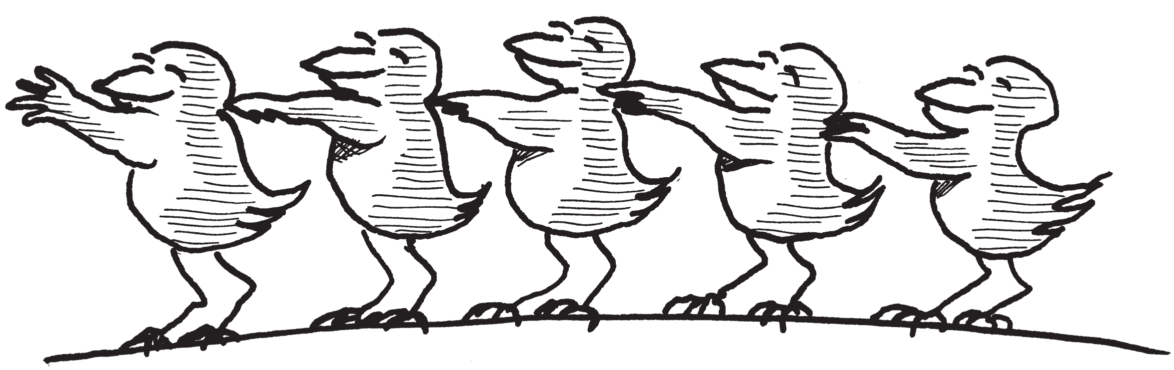
The table on pages 10-11 will help you identify all your sources of retirement income. It also will help you estimate what benefits will be available for as long as you live, for your spouse as a widow or widower, and whether it will keep up with inflation.

Get Your Ducks in a Row

Source of income	Monthly	Can you count on getting the income amount for life?
A. Social Security	$ __________	Yes
B. Employer pension – if paid as monthly income	$ __________	Yes
C. Employer savings plan account (401-k) – if paid as guaranteed monthly income	$ __________* * Enter the estimated annuity income these funds could buy.	Yes
D. Employer pension or savings plan account – if paid in a lump sum that's rolled over to an IRA and invested	$ __________* * Enter the estimated annuity income these funds could buy.	Some risk of running out of money, depending on how well you manage investments and spending
E. Part-time work	$ __________	No. In later years you're unlikely to find a suitable job that you can perform.

Total from all sources	Amount	How to Calculate Total Amount
Initial income	$ __________	Add A, B, C, D, and E
Income you can count on for life	$ __________	Add A, B, and C
Income that can keep up with inflation	$ __________	Add A and E, maybe B, C, D

Will the income keep up with inflation?	Can some or all of the income continue to your surviving spouse?
Yes	Yes, offset by other Social Security benefits payable to the survivor
Private plans usually do not. Public employee plans often will. What is your plan's track record?	Yes, if you use a joint and survivor form
Not usually. Amount is fixed unless you use a variable or indexed annuity.	Yes, if you use a joint and survivor form
Depends on performance of your investments and the economy while you're retired	Depends on how well you manage investments and spending during your lifetime
Probably, as long as you keep working	No



Resources

Be sure to visit the websites for the Center for American Nurses, WISER, the Women's Institute for a Secure Retirement, and FINRA, the Financial Industry Regulatory Authority:

www.centerforamericannurses.org

www.wiserwomen.org

www.finra.org

WISER's mission is to improve the long-term financial security of all women through education and advocacy. WISER supports women's opportunities to secure pensions and adequate retirement income through research, workshops and partnerships.

WISER

THE WOMEN'S INSTITUTE FOR A SECURE RETIREMENT

1146 19th Street NW • Suite 700
Washington, DC 20036
202-393-5452 • fax: 202-393-5890
www.wiserwomen.org • info@wiserwomen.org

The CENTER for American Nurses is a national professional nursing organization that offers evidence-based solutions and powerful tools to help nurses navigate workplace challenges, optimize patient outcomes and maximize career benefits. Visit the CENTER online at **www.centerforamericannurses.org.**

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