R etirement planning gets complicated because we need to make predictions—what will our future living expenses be, and what about inflation rates? Then we need to make a plan to put aside enough to cover those expenses. One big mistake many people make in projecting how much income they will need in retirement is underestimating the cost of future medical care. This error can undermine your entire retirement plan and leave you struggling to make ends meet.

Having a realistic plan to cover health care expenses in retirement is crucial. WISER has always recommended that women have an extra cushion to help them weather inflation, high health care costs and their longer lifespan. We suggest that women plan to replace 100% of their current income in retirement, rather than the 75-80% recommended by many financial planners.

Studies show that health care costs, including prescription drug costs, continue to rise more steeply than other living costs. In 2004, national health care expenditures increased by 7.9%—three times the rate of inflation. An AARP study showed that in the first three months of 2006, 64 drugs used widely by seniors increased in price by over 5%, or quadruple the rate of inflation.

A recent study by experts at Boston College’s Center for Retirement Research estimated that the percent-age of after-tax income spent on health care will almost double for seniors by 2030. People with lower retirement incomes will be most adversely affected. The study showed that those with low retirement incomes (bottom 20% of all seniors) will spend about half of their income on health care alone.

The high cost of retiree medical care has caused many financial analysts to revise their estimates on how much savings we all need to retire comfortably. Fidelity Investments, for example, estimates that a typical 65 year old couple will need approximately $200,000 to cover 20 years of medical care and the Employee Benefits Research Council puts the estimate closer to $300,000.

Health Care Expenses—An Overlooked Issue

Health Care Expenses continued on page 4
This year Congress passed two important retirement bills. The Pension Protection Act of 2006—a bill that will help promote retirement security—has provisions that are controversial, but most agree that making the federal Saver’s Tax Credit permanent is an important step forward for low and middle income workers. Also, a provision to increase coverage in 401(k) plans by allowing employers to automatically enroll their employees will also help more workers to receive an employer match.

The second retirement bill, the Older Americans Act, will play an important role in redirecting the nation’s long-term care system by supporting state and community planning to address the long term care needs of the boomer generation. The Act coordinates programs that protect elders from abuse, neglect and exploitation and provides service to a broader universe of caregivers under the National Family Caregiver Support Program.

Next year, we hope to see passage of the Women’s Retirement Security Act of 2007!

### 529 Savings Plans

A 529 savings plan may be a good option if you start early. Different states have different plans, but you can invest in a plan in any state. In addition to tax benefits, one benefit is that the assets are in the name of the donor, rather than the beneficiary. This can be especially valuable when applying for federal student aid, as the student’s assets are weighed more heavily than the parents’ in determining the family’s ability to pay for tuition. These plans also make it easy to change beneficiaries, and the money can be used at any college or university.

### I Bonds

The savings bond education tax exclusion permits qualified taxpayers to exclude from their gross income all or part of the interest paid when the bond owner pays qualified higher education expenses at an eligible institution. You can find more information about the education bond program in IRS Publications Online:

- IRS Publication 17, “Your Federal Income Tax”
- IRS Publication 550, “Investment Income and Expenses”
- IRS Publication 970, "Tax Benefits for Higher Education"
- IRS Publication 929, "Tax Rules for Children and Dependents"

### Student Loans

Although going into debt is an undesirable option, this option may be far more preferable than tapping into retirement savings. Start talking to your children while they are in high school about the realities of what you will be able to afford for college. Open your children’s eyes to the possibility of a great education, at a lower price than big name private universities. Consider all of the expenses, in addition to tuition, such as transportation and the cost of living in particular college locations.

There are a number of great books about financing college but most
Paying for Kids’ College?  
continued from page 2

importantly, make your child an early part of the planning.

Federal Financial Aid
When the time comes to look into your eligibility to receive federal financial aid, fill out a Free Application for Federal Student Aid (FAFSA). The FAFSA will ask for information regarding your family and child’s financial circumstances.

The good news is that money you have in a retirement savings plan is not factored into the equation, so that you will not be penalized for having retirement savings—no matter how large the sum.

Although it may be hard to resist—in any financial situation, withdrawing money from your retirement savings should never be an option.

FedFinancial Readiness! Six 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 2006, the Medicare premium is $88.50 a month, and the Medicare prescription drug benefit premium averages $32 a month.

4. Have you considered the cost of health insurance outside of Medicare? You may consider purchasing a “Medigap” policy in order to cover the costs that Medicare does not cover.

5. 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.

6. 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.

Have you checked out our newly-updated website? www.wiserwomen.org
These estimates of health care costs generally equal or exceed the average amount people save in their 401(k)s—raising concerns among experts that retirement savings plans will not cover much more than health care costs in the future.

Many people underestimate their retirement health care expenses because they mistakenly believe that Medicare benefits provide similar coverage to their workplace health insurance plan.

**5 things to know about Medicare benefits:**

1) Medicare has high out-of-pocket costs for retirees without private supplemental insurance, and fewer benefits.

2) Medicare only covers about half of retiree health care expenses. The uncovered expenses must be paid for by private supplemental coverage or "medigap" coverage or from personal savings.

3) Medigap coverage is expensive: for a 65 year old woman the current cost is between $1559 and $3499 annually.

4) Prescription drugs are a costly item for seniors, and the new Medicare drug benefit leaves many with high out-of-pocket costs, despite the coverage.

5) Medicare does not cover most long-term care costs. Medicaid, a program run by states, generally covers costs only after the individual is impoverished. Long-term care expenses can derail even a well-thought out financial plan. This is a particularly important consideration for women, who live longer than men, and are more likely to need long-term care services. Retirees who exhaust their savings often drop below the poverty level, with few choices for receiving care.

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**Increase in Bankruptcy**

Bankruptcy rates among older Americans are one result of health care costs rising steeply. More seniors are borrowing to pay health expenses, and eventually declaring bankruptcy when the expenses become unmanageable.

★ A study by Harvard University found that the average annual out-of-pocket health care costs of those declaring bankruptcy was $12,000.

★ A study by the non-profit group Demos found that from 1992 to 2001, average senior credit card debt increased by a whopping 89%.

To make matters worse, retirees are entering retirement years in a more precarious position than ever, with record high debts. “WISER has stressed the importance of paying off all of your debts before retiring,” says Cheryl Gannon, WISER's Health Director. “Entering retirement years with a high debt load places you in a very precarious position when health care or other expenses hit hard.”

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**What to do? Things to do now to make sure you can pay for health care in retirement**

★ **Plan to retire debt free.** If you are 50 or older, you need to put an aggressive plan in place to eliminate your debts by age 60. If you are younger, make a pact with yourself and your spouse/partner (if you have one) to eliminate debt.

★ **Plan for education expenses.** Investigate all available options for covering college costs without using retirement funds or home equity.

★ **If you own a home, try to have it paid off by your expected retirement age.** This will give you the freedom to sell and buy a smaller home or purchase a place in an assisted living facility. Making extra mortgage payments can eliminate tens of thousands of dollars in interest payments.

★ **Start saving at least 15% of your gross income for retirement or try to build up to that amount.** WISER’s website has budget and savings tools.

★ **Investigate long-term care insurance.** See WISER’s website and the Healthcare page for more information and resources on buying long-term care insurance.

WISER’s website has tools for estimating your retirement income needs and calculating how close you are to your savings goals. See the Savings page for retirement calculators at www.wiserwomen.org.

See page 6 for resources on a healthy retirement.
Congress Acts to Improve Retirement Security

After several years of wrangling about some very complicated issues, Congress passed the Pension Protection Act of 2006. The bill was the result of bipartisan action to improve the nation’s retirement system. The legislation strengthens the funding requirements for businesses that offer traditional defined benefit pensions to employees, creating greater security for employees that the pension they are relying on will likely be there for them when they retire.

We have highlighted certain provisions of the legislation that will make it easier for individuals to save for retirement through defined contribution plans, and Individual Retirement Accounts (IRAs) and those that are likely to affect women more than men.

The federal Savers Tax Credit was set to expire in 2006, but thanks to this legislation, it has been made permanent. The Savers Tax Credit gives a federal tax credit for low and middle income workers who make contributions to workplace retirement plans or Individual Retirement Accounts (IRAs). The amount of the tax credit will also increase over the years with inflation. “WISER has testified before Congress in favor of making the credit permanent because it is an important way for working people with limited income to find the money to put into an IRA or workplace retirement plan,” said Cindy Hounsell, President of Wiser. “It is the families with limited income that need the most help finding ways to save.”

Previously, Congress had expanded the limits on how much individuals can contribute each year to an IRA, including higher “catch up” contribution levels for individuals over 50 years of age, but these higher limits were set to expire in 2010. Congress made these higher limits permanent, and indexed them to inflation, opening the way for workers to build larger nest eggs. The limits have moved up to $4,000 a year and up to $5,000 in 2008. Catch-up contributions for those over age 50 are now $1,000.

A big improvement in the new law is for those who inherit retirement funds but are not spouses. Beginning next January, non-spouse beneficiaries who inherit retirement funds will be allowed to roll the funds over into their own IRA and avoid penalty taxes. This provides an important way for people to increase their retirement savings through inheritance, without seeing it eroded by federal taxes.

Married couples with a traditional defined benefit pension plan will now have an option of choosing a 75% spousal benefit if the worker earning the pension dies, although this option will reduce the benefit while both are still living. Spouse benefits are very important for women, who typically outlive their spouses and depend on that income to survive. Under current law, retirees are offered a 50% survivor benefit, which in many cases does not provide enough income for the surviving spouse who may live for decades.

Finally, if your company has a 401(k) savings plan, you might be automatically enrolled in the plan. If your plan uses automatic enrollment, you will be signed up for the 401(k) plan without making a choice to do so. Money will be deducted from your paycheck, tax-free, and deposited into your account. Your employer may match your contribution. The new law makes it easier for plans to use automatic enrollment as an incentive to help people save. However, if your employer does use automatic enrollment, you must be given notice that you may choose not to enroll.

Did You Know?

According to a recent survey, half of all middle and low income families report serious problems paying for health care, and three-quarters of all adults said the U.S. health care system needs either fundamental change or complete rebuilding.
Retire Healthy

If you are like many people, you approach planning for retirement with some denial—assuming that health care calamities won’t happen to you and that you won’t need to finance a long-term disability. But, here’s the reality—most disabilities occur because of chronic disease and not accidents. Women, with longer lifespans, are more likely to experience chronic and disabling conditions.

But there is some good news: according to the Surgeon General, the majority of chronic diseases are preventable with healthy lifestyle changes. Taking steps earlier in life to safeguard your health can mean living out retirement years with far fewer medical expenses.

To help women along this path, the federal Department of Health and Human Services created The National Women’s Health Information Center—an internet resource center with information and tools women need to promote better health. Topics covered include cardiovascular disease, mental health issues, osteoporosis, chronic diseases, wellness, safety and insurance programs including Medicare and Medicaid.

Women of all ages need to have a personal plan for maintaining or improving their health, as part of sound retirement planning. 

Visit the National Women’s Health Information Center at http://www.4woman.gov/ow/

WisER’s Mission

To improve the long-term financial security of all women through education and advocacy. As the only organization to focus exclusively on the unique financial challenges that women face, WISER supports women’s opportunities to secure fair pensions and adequate retirement income through research, workshops, and partnerships.

Next Issue:

- Employee Benefits—Distinguishing between all types of retirement plans, the new Roth 401(k) and more.