Winter 2007

WISERWoman

A Quarterly Newsletter from the Women's Institute for a Secure Retirement

Know What You Have: Employee Benefits

Despite reports that Americans are not prepared financially for retirement, many of us ignore some of the best opportunities for building retirement security—the benefits provided by our employers. At a recent WISER policy symposium in Washington, DC, employer specialists noted how difficult it is to coax employees to take full advantage of available benefits.

Many employers provide a variety of benefits — benefits that go beyond the two biggest — health care and retirement plans. Additional benefits may include: life insurance, disability insurance, long-term care insurance, and flexible spending accounts. In the changing world of do-it-yourself retirement, it's up to you to know what your employer provides, and take advantage of those opportunities to protect your future.

Take the First Step

This article will provide a road map to some of those benefits. Remember, these benefits are part of your compensation package — that means they are worth something — they cost your employer and will cost you more if you do not take advantage. Ask for explanations from your employer or your human resources department. And, don't leave the responsibility for your future retirement security with someone else. Be your own advocate.

Retirement plans

The centerpiece of your long-term financial security is your employer-provided retirement benefits. When you consider the long-term value of your employer's contributions and potential tax benefits it adds up to a benefit that's hard to beat.

The two basic types of retirement plans are: *defined benefit* and *defined contribution* plans. In general, your employer takes the responsibility for your defined benefit plan and you take responsibility for your defined contribution plan. Some employers offer both types to their employees. Make sure you know what kind of plan(s) your employer offers and understand how the plan(s) works. Don't worry about looking foolish by asking a lot of questions — you don't want to miss out because you didn't understand what to do to join-up or participate.

Find Out:

★ **Does my employer offer a retirement plan?**

★ **What are the rules.**

- Am I in the plan?

Note: Some employers don't allow part-time workers to participate and some require workers to work for a specific period of time before they can join the plan.

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Inside

From WISER's President

This issue of *WISERWoman* suggests finding out, "What's in your benefits package?" If you're like a lot of women out there, you're so busy working, taking care of family and friends, and just doing what needs to be done, you're lucky if you know what's in your purse much less what's in your employer's benefit package. But not knowing what's in your benefits package may mean you are missing out on some important financial opportunities—free opportunities—to improve your financial future. You could be missing out on the free money of an employer match to a 401(k), or the opportunity to protect your family through employer-provided life insurance or long-term care insurance. If you haven't got a clue neither do most people. So just read on. Make a list, after you gather your documents, of all your benefits. And if you have a spouse or partner, gather that information as well.

Published by WISER.

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Design and layout: *amp&rsand* graphic design, inc.

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How Does the New Pension Law Affect Your IRA?

While fewer than 10 percent of all working Americans contribute to an Individual Retirement Account, Congress just raised the dollar amounts that can be contributed and will increase the amounts every year based on the cost-of-living.

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Saving the most you can for your retirement is important and the Pension Protection Act (PPA) provides an additional opportunity to contribute up to $1,000 more. Starting in 2009 the Individual Retirement Accounts (IRAs) contribution limits will include inflation increases.

Contribution limits for Individual IRAs remain the same at $4,000 for tax years 2006 and 2007 but will be increasing to $5,000 in 2008, as well as adjusted for inflation after 2008. If you are age 50 or older, you may also add a "catch-up" to your IRA.

The purpose of the catch-up was to allow people nearing retirement age to save more after the kids have left and they are in the final push toward planning for the time when they will be out of the workforce. These catch-up provisions were made permanent by the new law. Unlike your basic IRA contributions, the catch-up contribution levels are not adjusted for inflation.

(See the tables below for IRA and catch-up contribution limits.)

IRA Contribution Limits

Year	Individual Contribution	Individual + Spousal Contribution
2007	$4,000	$8,000
2008	$5,000	$10,000
Beyond	$5,000 + Inflation	$10,000 + Inflation

IRA Catch-Up Limits for Those Age 50 and Older

Year	Individual Contribution	Individual + Spousal Contribution
2007	$1,000	$2,000
2008	$1,000	$2,000
2009	$1,000	$2,000
2010	$1,000	$2,000

How to Handle a Windfall

It sounds like a great problem to have. Trying to decide what to do with a financial windfall, like an inheritance, sale of property or proceeds from a lawsuit, is a situation most of us would envy. But, it is important to make a prudent plan for the funds, so that the money will be there when you most need it.

Women, as the caregivers in our society, will often hastily make decisions to spend the money on their family. But before you get carried away with even selfless spending, you should consider using the money in ways that will improve your financial well-being in the long run.

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Most financial advisors will tell you that the first step is not to spend any of the money for a while. Take some time to adjust to your new wealth and to make some decisions on the most beneficial ways to use the money. Give yourself a budget that includes a small amount of pleasure spending. According to the *Baltimore Sun*, about 70% of people who receive a windfall "blow" the money in just a few years. Try not to make this mistake. Allow yourself only a small portion to spend on something like a vacation or other pleasure item.

After that, consider how to increase your financial stability. Eliminating debt is one possible use for the funds. But, only if you stay out of debt and do not run up the credit card balances all over again. Once you have paid off debt, use the money you were using for monthly payments to increase your retirement savings. It would be especially wise to increase your contributions to your retirement plan at work.

Also important is setting up an emergency fund for your family, in the event of a future financial crisis. But remind yourself that this is a true emergency fund, and refrain from withdrawing money from this account for things that you can live without. A good rule of thumb is to have six months of living expenses in an emergency fund, so that a crisis like losing your job will not mean losing your home.

With your debt reduced and your emergency fund in place, put the remainder of your funds into an additional retirement plan, such as an IRA. When investing lump sums, it is best to diversify your investments. Do not put all of your money in one place. Mutual funds are excellent choices to diversify your investments, allowing them to grow over time, and minimizing risk. Choose a low-cost, no load index fund.

Women live longer than men, and are more likely to live alone in later years. Managing a financial windfall prudently can make all the difference.

Resource: National Clearinghouse for Long Term Care

The National Clearinghouse for Long-Term Care Information (available at **www.longtermcare.gov**) was designed to provide objective information to help people plan for their futures. While no one likes to look toward a time when they might need services to help with basic daily activities (like bathing, dressing or using the bathroom) about 60 percent of people over age 65 will require some long-term care services at some point in their lives.

Planning is essential and this website from the Department of Health and Human Services can help you get started. The site covers three broad topics: Understanding Long-Term care, Planning for Long-Term Care, and Paying for Long-Term Care. While primarily intended for individuals who don't yet require long-term care, it includes information on services and financing options.

Know What You Have

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- How long do I have to work to receive a benefit?

Note: Time your departure from your job carefully. For example, if your benefit increases after ten years, it makes no sense to leave your job sooner. If you need 5 years to qualify for a pension, don't leave after 4 1/2.

Find Out:

★ **Does my employer offer a savings plan?**

★ **What are the rules?**

- Am I enrolled in the plan?

Note: Don't assume you are part of the plan. Many workers are surprised to find out that they never completed the required paperwork to become enrolled.

- Does your employer provide a match to your contributions?
- What is the maximum amount that your employer contributes?

Note: Try to contribute enough to receive the maximum contribution. Don't pass up free money. Stay at your job long enough to qualify for the employer match.

Health Insurance

Health insurance is important not only for your health, but also your financial stability. Most of us need protection from the rising cost of health care and possible catastrophic costs resulting from accidents or serious illness. Employees usually place a high value on health insurance. Unlike retirement, which is off in the future, health care costs are part of our lives today.

Often, the most affordable health coverage will come through a job. If you are laid off, terminated or leave your job, and do not have coverage, you can in many cases extend your coverage for up to 36 months under a federal law called "COBRA", but you will need to pay the full costs plus an administrative fee.

Find Out:

★ **If my employer provides health insurance is there more than one option?**

Investigate the choices and look for the most cost effective plan. Don't reject the HMO coverage without careful thought. Many HMOs provide good care with extra benefits like vision or dental care or more generous prescription drug benefits. These extra benefits can stretch your household budget further and make it easier to save money for the future.

Health Savings Accounts (HSA)

HSAs are not health insurance; they are tax advantaged savings accounts. You, your employer or both of you can contribute to your HSA. You use the funds for medical expenses. Depending on how the HSA is set up, your contributions may provide a tax deductible way to save for your health care. To learn more: visit the IRS website http://www.irs.gov/publications/p969/ar02.html.

Find out:

★ **Does my employer provide an HSA? Will my employer contribute to my account?**

★ **Do I meet the criteria to participate?**

HSAs have very specific rules for participation. Be sure to know what the rules are.

Life Insurance

Many employers provide life insurance to employees, and sometimes it is possible to buy more life insurance through your employer if you need more than what your employer pays for. How much life insurance you need depends on who is depending on

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You Can Ask, But They May Not Tell

Need help with investing your 401(k) savings? Don't know a stock fund from a bond fund? Mystified about which funds have higher risk with a possible higher rate of return? Or what about funds with a lower risk and a commensurate lower rate of return? Don't know which fund you should be interested in? Rest assured, you're not alone.

But don't look to your mutual fund company for advice about your 401(k) — none of the funds are jumping at the chance. The reason: the gist of the new pension law says that those who provide advice will have more responsibility to their clients and potentially could be sued. Stay tuned.

Did You Know?

WISEWOMAN, sponsored by the Centers for Disease Control, has 15 screening and evaluation sites for low income, uninsured women. You can find more information at: http://www.cdc.gov/wisewoman

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your income and what sources of income are available if something happens to you.

If you are covered at work learn how much coverage you have — often it is tied to your annual salary. Then, calculate how much you need to protect your family if you die. Many people buy enough insurance to pay off the mortgage on the house and to cover children's educational expenses.

Find Out:

★ **Does my employer provide life insurance? How much?**

★ **Should I purchase more? Can I buy more from my employer?**

Disability Insurance

Employer sick leave policies usually cover only short-term illnesses or injuries. Social Security Disability Insurance (SSDI) benefits begin after a waiting period of at least five months, and pay a benefit only to those who are unable to work at all. It can be difficult and take a long time to qualify for SSDI benefits. So, short and long-term disability policies are very important. Many employers provide short-term disability because it is relatively inexpensive. Long-term disability policies replace a portion of your income, usually until you are eligible for Social Security or Medicare. These policies provide critical protection if you become disabled.

Ask at work if you have disability insurance, both short and long-term. Make sure you understand how the policies work. If you have long-term disability insurance at work, but need a higher benefit amount, you may be able to buy it through your employer. If you don't have coverage, consider buying coverage on your own.

Find Out:

★ **Does my employer provide disability insurance? What does it cover? For how long?**

★ **Should I purchase more? Can I buy more from my employer?**

Long-term Care Insurance

Many people are surprised to learn that Medicare primarily covers acute care costs such as doctors and hospitals but not most long-term care costs. The Medicaid program will kick in and pay for your long-term care if you have spent down all of your personal resources. The benefit of having long-term care insurance is that you will have options. It gives you the opportunity to decide where and how you receive long-term care services by helping to pay for care in your home, an assisted living facility or a nursing home.

Find Out

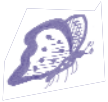
★ **Does my employer offer long-term care insurance?**

★ **Should I purchase long-term care insurance on my own?**

Note: For more information on how to purchase long-term care insurance, see www.wiserwomen.org in the Healthcare section.

Cafeteria Plans or Flexible Spending Accounts

These plans allow employees to contribute a portion of salary, before taxes, to accounts designated for health care expenses, including premiums and child care expenses. Then employees are reimbursed from their accounts with tax free dollars for unreimbursed medical expenses and child care expenses. You must use the funds before the end of the plan year, or grace period, or else you forfeit unused dollars. If you have access to these plans, you should use them, but plan carefully so that you do not contribute more than you can use in a year.



Find Out:

As the cost of administering these plans has been coming down, more employers are offering them as a benefit. If you don't have one at your job, ask your employer about setting one up. You can reduce your federal taxes and have more money left to fund your retirement account!

Note: If you don't have health coverage at work, call your state Insurance Department and ask if there is a state plan for uninsured people. Low-income individuals and children may be eligible for Medicaid and the State Children's Health Insurance Program. Call your state Medicaid office for information on eligibility for those programs.

Did You Know?

The Bureau of Primary Health Care, sponsored by the U.S. Department of Health and Human Services, will help you find a clinic that will give you health care even if you have no medical insurance. Use this website (http://ask.hrsa.gov/pc/) to find the clinics available in your city and which clinics offer special services such as: obstetrical and gynecological, dental, mental health and substance abuse care.

Women: Going It Alone

More American women are living without a spouse than with one, according to a recent *New York Times* analysis of the 2005 Census Bureau report.

Two trends are driving this shift according to the *Times*. Women are continuing to marry later or living with married partners more often and for longer periods. At the other end of the age spectrum, women live longer as widows and delay remarrying after divorce.

The percentage of married women has declined for every age group, most dramatically for the younger age groups — the largest group of "never-married". The overall marriage rate for black women is particularly low. Only about 30 percent of black women are living with a spouse, compared to about 49% of Hispanic women, 55% of white women and more than 60% of Asian women.

Women face unique obstacles to a financially secure future when they spend more time in life living alone—whether they were never married, divorced or widowed, says Cheryl Gannon, Health Policy Director at WISER. "These trends will mean that women will need to begin planning for a secure retirement much earlier and take into account the reality that for a big part of their lives they will be relying on only their own income to build assets."

For more information on widowhood and divorce and issues for retirement see WISER's website at www.wiserwomen.org in the "Divorce and Widowhood" section.

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 though research, workshops, and partnerships.

Next Issue:

- **Financial Scams: What you need to know for yourself and your parents. And,**
- **Inherited 401k plans and Inherited IRAs**

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