



## The Future Isn't What It Used to Be

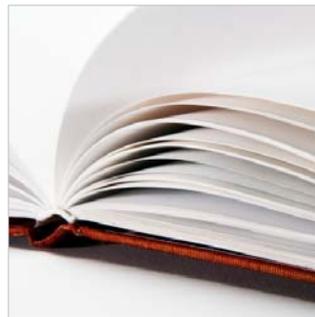
### Retiree Challenges in a New Millennium

## Retirement: The Dictionary Definition

### **retirement**

ri-'tī-r(ə)r-mənt

*noun* - withdrawal from one's position or occupation or from active working life.



## Retirement: What the Dictionary Doesn't Tell You

- Retirement is a fundamental change in your way of life and requires significant adjustments.
  - It can be voluntary or involuntary
  - It changes your daily routine
  - It can alter your social network
  - It changes your family dynamics
  - It's not a onetime event or date, but a decades-long process
  - It evolves over time
- Retirement planning doesn't end with retirement

## Retirement's a Fairly New Phenomenon

- At the turn of the century, the average life expectancy was 47.<sup>1</sup>
  - People quit working only when they were too ill to keep going.<sup>1</sup>
  - Retirement marked the end of life, not the end of working life.<sup>1</sup>
- The bottom line:
  - Many of us are still "learning" how to retire successfully.
  - Knowledge is power: the more you know about the opportunities and challenges of retirement, the better prepared you'll be.

<sup>1</sup> <http://www.intelihealth.com/IH/INTLH/WSIH/000/8271/21849/268115.html?d=dmContent>

## Academics Study Retirement's Different Phases

- **Phase 1: Pre-retirement**
  - Planning for what retirement will entail.
- **Phase 2: Retirement**
  - The "honeymoon" path: feeling and acting as if one is on vacation indefinitely.
  - The "immediate retirement routine" path: adopted by those who already had a full and active schedule in addition to their employment.
  - The "rest and relaxation" path: described as a period of very low activity.
- **Phase 3: Disenchantment**
  - A person may miss the feelings of productivity they experienced when working or feel discontent due to the death of a spouse or an undesired move.
- **Phase 4: Reorientation**
  - A time to "take inventory" of the retirement experience
  - Becoming more involved in community activities and new hobbies.
  - Many relocate to a more affordable setting.
- **Phase 5: Retirement Routine**
  - Mastering a comfortable and rewarding retirement routine .

Source: <http://ohioline.osu.edu/ss-fact/0201.html>

## Or for Retirees Who Like to Keep It Simple . . .

- **The Go-Go Years**
  - A period of high activity when retirees indulge in their newfound freedom and free time.
- **The Slow-Go Years**
  - Scaling back on the burst of activity that initially followed retirement.
- **The No-Go Years**
  - A time when rest and relaxation takes a higher priority.



## Retirement Year 1: Making a Successful Transition

- According to a recent Wall Street Journal Online article<sup>1</sup>:
  - **Be choosy with your time**  
Resist the temptation to schedule every minute of every day.
  - **It's OK to slow down**  
Take time to smell the roses.
  - **Work out the ground rules**  
Re-learn how to spend time with a partner.
  - **Be prepared to switch gears**  
Understand your plans may change.
  - **A role model or two can help**  
Seek the advice of someone who's been there.
  - **Finding friends can take more work**  
Prepare to make an effort to make friends.
  - **Retiring can be tough if your spouse still works**  
Different schedules can cause conflict.

Source: Kelly Greene, 1. "Surviving the First Year After Retirement," The Wall Street Journal Online,  
<http://www.careerjournal.com/myc/retirement/20030703-greene.html>

## Taking a Closer Look

- All retirees and the soon-to-retire face similar challenges.
  - Understanding retirement income
  - Analyzing retirement expenses
  - Anticipating retirement healthcare





## A Closer Look At Retirement Income

### Defined Benefit Plans: How Much Will They Provide?

- Defined benefit plans are designed to be a significant source of retirement income – but not your sole source.
- Many experts recommend replacing 70% to 80% of your working income to maintain a similar lifestyle in retirement.
- To reach that level, you may need additional income sources.



**Your DB plan is only one piece of the retirement income pie.**

## Supplementing Your Retirement Income

- Other possible income sources
  - Social Security
  - Personal savings and investments
  - IRA
  - Wages
  - Your 457 plan



## Are You Prepared? Expectations vs. Reality

- **Expectation**  
In 2007, 70% of workers expressed confidence in the ability to live comfortably during retirement.<sup>1</sup>
- **Reality**  
49% of all workers say they have less than \$25,000, in savings or investments (excluding their home and DB plan).<sup>1</sup>

<sup>1</sup> Source: EBRI, 2007 RCS Fact Sheet, Saving for Retirement in America

## Are You Prepared? Average 401(k) Account Balances

- The average account balance in 2005 among workers in their 20s who have had accounts since 1999 was \$24,169.
- For those in their 30s: \$50,930
- For those in their 40s: \$91,848
- For those in their 50s: \$127,766
- For those in their 60s: \$140,957

Source: [http://money.cnn.com/2006/08/24/pf/retirement/ebri\\_ici\\_study/index.htm](http://money.cnn.com/2006/08/24/pf/retirement/ebri_ici_study/index.htm)

## Do You Plan to Keep Working?

- The average retirement age is now 62, not 65.
- Only 27 percent of Americans retire at age 65 or later.<sup>1</sup>
- Each year someone age 62 postpones retirement, they reduce their need for retirement savings by about 5 percent.<sup>2</sup>
- Many who continue to work – or go back to work – find that they're a valuable commodity.
- According to a study by AARP, more than 60 percent of U.S. companies are currently bringing back retirees as contractors or consultants.<sup>3</sup>



<sup>1</sup> [A Contrarian on Retirement Says Wait](#), DAMON DARLIN, May 12, 2007, *New York Times*

<sup>2</sup> <http://www.cbo.gov/ftpdocs/cfm?index=5195&type=0>

<sup>3</sup> [http://www.cio.com/article/16548/Knowledge\\_Management\\_KM\\_How\\_to\\_Beat\\_the\\_Baby\\_Boomer\\_Retirement\\_Blues](http://www.cio.com/article/16548/Knowledge_Management_KM_How_to_Beat_the_Baby_Boomer_Retirement_Blues)

## Social Security Provides Only A Fraction of Retirement Income

Estimate of what a 35-year-old today, retiring at retirement age (67), might expect in Social Security benefits, based on annual pay.

Average Annual Pay	% of Annual Pay Replaced by Social Security
\$20,000	55%
\$40,000	43%
\$60,000	36%
\$80,000	31%
\$100,000	27%

Source: Social Security Administration ([www.ssa.gov](http://www.ssa.gov)), April 2006. This assumption is based on current age of 35, retiring at age 67. This example assumes no future increases in prices or earnings.

## Retirement Income: Finding the Answers, Making a Plan

- What will be my retirement income sources?
  - How much income will they provide?
  - How will I supplement my DB plan income?
- What are my assets?
  - How liquid are they? Do I want to use them for retirement?
- Will I continue to work?



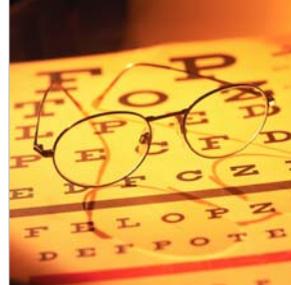
## A Closer Look At Retirement Expenses

### Retirees Can Be Big Spenders

- In a recent survey:
  - 55% of pre-retirees expected a decline in retirement spending.
    - Only 30% of retirees actually experienced a drop.
  - 8% of pre-retirees expected to increase their spending at retirement
    - 20% of retirees actually upped their spending.

## Ongoing Expenses: The Fine Print

- Food and clothing
- Housing: Rent or mortgage payments, property taxes, homeowners insurance, property upkeep and repairs
- Utilities: Gas, electric, water, telephone, cable TV
- Transportation: Car payments, auto insurance, gas, maintenance and repairs, public transportation
- Insurance: Medical, dental, life, disability, long-term care
- Health-care costs not covered by insurance: Deductibles, co-payments, prescription drugs
- Taxes: Federal and state income tax, capital gains tax
- Debts: Personal loans, business loans, credit card payments
- Education: Children's or grandchildren's college expenses
- Gifts: Charitable and personal
- Savings and investments: Contributions to IRAs, annuities, and other investment accounts
- Recreation: Travel, dining out, hobbies, leisure activities
- Care for yourself, your parents, or others: Costs for a nursing home, home health aide, or other type of assisted living
- Miscellaneous: Personal grooming, pets, club membership



## The Unpredictables: Expecting the Unexpected

- Some factors that can affect your retirement expenses:
  - Adult children returning to the nest
  - Death of spouse
  - Death of adult children
  - Helping raise grandchildren
  - Catastrophic loss



## Is the Gold Card a Smart Choice for the Golden Years?

- According to a recent study, nearly one-third of senior citizens in the U.S. carry card balances.<sup>1</sup>
- Within that group, the average debt is \$4,041 — an 89% increase over the past decade.<sup>1</sup>
- People aged 65 to 69 saw their credit-card balances grow by 217%, to \$5,844, during the decade.<sup>1</sup>



<sup>1</sup> The Senior Debt Crisis, Updated February 12, 2007, <http://www.smartmoney.com/consumer/index.cfm?story=20040311>

## Older Americans and Mortgage Debt

- Housing debt for families with a head of 55+ increased from 24% in 1992, to 36% in 2004.
- Mortgage debt and home equity are two important considerations in developing your retirement strategy.



Source: EBRI, Notes, Sept., 2006, Vol. 27, No. 9, Debt of the Elderly and Near Elderly

## Increasing Bankruptcy Risk for Seniors

### According to a recent study

- Senior citizens are the fastest growing age group headed into bankruptcy court, primarily based on their growing credit card debt – an increase of 217 percent in the last ten years.
- This situation worsens with the shrinking wealth of seniors.



<http://www.seniorjournal.com/NEWS/Money/4-03-29Retiringinred.htm>

## Retirement Expenses: Finding the Answers, Making a Plan

- What are my current expenses?
- What are my post retirement plans?
- What are my housing plans?
- Can I take steps to minimize my personal debt now?
- How will I deal with emergencies?



## A Closer Look at Retirement Healthcare

### Beyond Shuffleboard: Retirees Are Investing in Health

- According to the International Health, Racquet and Sportsclub Association, older adults are hitting gyms and health clubs at a record rate.
- Health club members over 55 grew by 343% from 1987 to 2003, while the number of members in the 35-54 age group increased by 180%.
- **"No matter what area you look to, be it heart disease, obesity, diabetes, high blood pressure, osteoporosis, research shows that being physically fit into your senior years will keep you healthier and active longer."**  
Cedric Bryant, PhD, chief exercise physiologist,  
American Council on Exercise



Source: <http://www.onhealth.com/script/main/art.asp?articlekey=56354>

## Healthcare Costs Will Take Up a Big Chunk of Retirement Savings

- People tend to underestimate their retirement healthcare needs
  - 12% think they will need to accumulate less than \$50,000,
  - 20% think they will need \$50,000-\$99,999 and
  - 20% \$100,000-\$249,999.
  - Less than 25% think they will need at least \$250,000.
  - 23% have no idea how much they will need
- Assuming Medicare benefits remain at current levels, couples will need **approximately \$300,000-\$550,000** to cover health care expenses in retirement.<sup>1</sup>



1 "Savings needed to Fund Health Insurance and Health Care Expenses in Retirement." EBRI Issue Brief no. 295 EBRI, July 2006

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## Long Term Care: Are You Covered?

- Only 10.2 % of Americans age 65 and older had LTC insurance in 2002, yet many mistakenly believe they are covered.<sup>1</sup>
- Some 6.4 million people aged 65 or older will need LTC, and 50% of those over age 85 will need help with the daily activities.<sup>2</sup>

1 EBRI 2007 RCS Fact Sheet, Risk in Retirement  
2 [www.aarp.org/bulletin/longterm](http://www.aarp.org/bulletin/longterm)

## Assisted Living Costs

- In 2006, the average annual cost for a private one-bedroom assisted living unit was \$32,294.<sup>1</sup>
- The average annual cost for a private room in a nursing home rose to \$70,912 in 2006.<sup>1</sup>
- The combined average hourly rate for a home health aide for in-home long term care spiked 13 percent to \$25.32 per hour.<sup>1</sup>

<sup>1</sup> <http://www.medicalnewstoday.com/articles/40403.php>

## Retirement Healthcare: Finding the Answers, Making a Plan

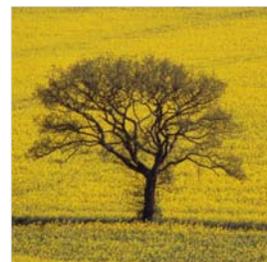
- Am I planning adequately for increasing healthcare costs?
- Is long-term a possibility for me, and do I have the right insurance?
- What are my plans in the event I need assisted living?



## Your Defined Contribution Plan: Understanding Your Post-Retirement Options

### The Advantages of Staying Put

- By keeping your assets with your plan, you have access to:
  - The same investment options
  - The same account management tools
  - The same planning tools
  - Flexible withdrawal options
  - Competitive fees
- Your plan also allows you to consolidate other accounts you may have into a single account, which offers:
  - Ease of account management – everything in one place
  - The potential for low investment fees
- The plan that helped you prepare for retirement can help you manage retirement



## Your Options

- Distribution Options from your DC plan
  - Lump sum
  - Partial lump sum
  - Periodic payments
  - Annuity
  - A mix
- Things to consider
  - Taxes
  - Fees - visible and hidden
  - Availability of money

## Required Minimum Distribution

- Must be taken by April 1 of the year after the year you turn 70½
- After that, at least once a year—on or before December 31
- Excise tax—50% of difference between what was taken and what should have been taken
- We can calculate for you and send you payment



## Lump-Sum Distribution

- Mandatory 20% deducted for federal income tax.
- May owe more, depending on tax bracket.
- Investments and any earnings are no longer tax-deferred.
- Money is available (less taxes and penalties).



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## Lump-Sum Distribution

### Potential Impact of Taxes and Penalties

Account balance	\$50,000
Mandatory 20% federal income tax withholding	- 10,000
Potential 5% additional tax owed	- <u>2,500</u>
<b>What's left</b>	<b>\$37,500</b>

FOR ILLUSTRATIVE PURPOSES ONLY. Assumes \$50,000 account balance, age below 59½ and 25% federal income tax bracket.

## Tax Deferred vs. Currently Taxable

	Investing a lump-sum distribution in a taxable investment	Leaving balance in a tax-deferred account
<b>Starting amount</b>	<b>\$ 50,000</b>	<b>\$ 50,000</b>
<b>Minus taxes</b>	<b>– \$ 12,500</b>	<b>N/A</b>
<b>Amount remaining</b>	<b>\$ 37,500</b>	<b>\$ 50,000</b>
<b>After 10 years of 8% growth</b>	<b>\$ 72,278</b>	<b>\$ 107,946</b>

FOR ILLUSTRATIVE PURPOSES ONLY. Assumes age 55 with \$50,000 account balance, an 8% average annual rate of return over 10 years with 25% annual federal income tax.

## Partial Lump-Sum Distribution

- Take portion of balance as distribution
- Single check
- Fully taxable that year



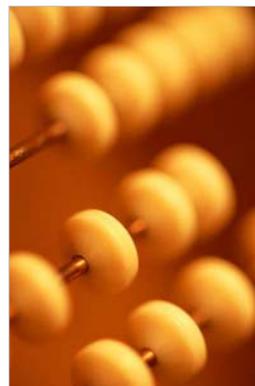
## Periodic Payments

- Equal amounts
  - Select dollar amount
  - Select how often
  - Payments continue until money is gone
  - Number of payments varies
- Specified period
  - Select how often
  - Payment amount varies (depending upon length of time, periodic basis and rate of return)
- Taxable payments



## Periodic Payments

- Regular “retirement paycheck”
- Any remaining earnings continue to be tax-deferred
- Continue to transfer money among options
- Retain access to services provided by Great-West Retirement Services\*
- May change election



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## Annuity Option

- Guaranteed income for life or specified period
- All or portion of Plan account used to purchase annuity
- Fixed annuity
  - Guaranteed interest rate
  - Guaranteed fixed payment amount (taxable)



## Annuity Income Choices

- Certain amount
- Certain period
- Guaranteed period or lifetime, whichever is longer
- Lifetime
- Joint annuity
- Cannot change your mind—irrevocable once payments begin



## Combination Payment Options

- Periodic payment plus annuity
- Partial lump sum plus periodic payment or annuity
- Keep in Plan



## The "Free Lunch" Rule Still Applies

### **Investment option fees can include:**

- Administrative - for managing your plan
- Investment related - for buying and selling
  - Front-end fees, assessed at the time of investment or
  - Back-end fees, assessed when money is withdrawn
- Commissions – for the person who sells you the investment
  - Many are paid on an asset fee basis – the larger your account, the greater the commission
  - Each trade may generate a new commission



## Using Your Retirement Plan in Retirement

- How will I access the money in my DC plan?
  - Lump sum
  - Partial lump sum
  - Periodic payments
  - Annuity
  - A mix
- What are the tax and fee implications of each option?
- How does my choice affect the availability of my money?
- Remember: your retirement plan is a valuable tool long after you retire.

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## Any questions?

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