American Chemical Society

"What Chemical Professionals Should Think About Before Retiring"

This guide is intended to provide Chemical Professionals with some background information for planning a successful retirement; planning now will have a bigger impact than you may think!

Financial Planning

Everyone's situation is different! *Financial planning is complex, and one of the first decisions you must make is whether you will manage your own finances, seek professional assistance, or use some combination of the two. A question to ask is "How knowledgeable and comfortable am I managing my own finances"? When choosing a financial advisor, keep in mind that some are independent, such as certified financial planners, and others represent financial institutions.*

How do you know when to retire? Accumulating an appropriate amount of money for retirement is important. You'll need a budget for retirement, estimating how much you will spend. Calculators for this purpose are available from various sources: books, websites, and financial services companies. They use a number of assumptions and default settings which you may want to check (life expectancy, inflation rate, average market return, *etc.*) The calculated results are an estimate at best, but going through this exercise is worthwhile as it can help determine whether you will have enough to retire comfortably.

Sources of income during retirement:

1) Pensions (also known as defined benefit plans) are employer sponsored plans whose benefits depend on your length of employment and income level. Some questions to consider are:
    a. When does the plan vest?
    b. Will the pension adjust for inflation?
    c. Is the plan integrated with Social Security? (If so, benefits would be reduced by some or all of the amount of your Social Security check)
    d. How to receive payments – as a lump sum distribution, as monthly payments, or reduced monthly payments in exchange for continuing benefits for the life of a survivor. When deciding whether to take a lump sum distribution or a monthly payment, consider how long you think you will live. The monthly payments will continue for life. If you want to leave money to heirs, and you take the lump sum, the remainder becomes part of your estate after death. When making these decisions, it may be worthwhile to consult with a financial advisor and/or an actuary.
2) Social Security:
    a. You determine when to apply for Social Security; the benefit you receive depends on the age at which you start collecting and the annual salaries and the number of years you worked. At 62, you can receive early retirement benefits, but the benefit is discounted from the amount you would get at your full retirement age.
    b. Full retirement age now varies with the year you were born, it is between 65 and 67 – consult Social Security for more information.
    c. If you defer benefits past your full retirement age up to age 70, the benefit amount is even higher. It is generally a disadvantage to wait until after age 70 to claim benefits.

   d. Social Security income collected before full retirement age is taxed and may reduce benefits. This income may be reduced if you have earnings over a certain amount.
   e. Income taken after full retirement age may be taxed. However, earnings do not reduce benefits.
   f. Additional information, including benefit calculators can be found at http://www.ssa.gov/

3) Tax-advantaged retirement savings plans - 401(k) , IRA, Roth IRA, 403(b), *etc.*
   a. Most contributions are tax deductible up to certain levels.
   b. In most cases, you must start withdrawing money from the account the year after you turn 70 ½. These required minimum distributions (RMDs), are calculated based on the account balance and your life expectancy factor. Roth IRAs are exempt from RMDs and withdrawals are tax-free.
   c. Money withdrawn from these accounts before age 59 ½ is considered an early withdrawal, and is subject to penalties and taxes. There are some exceptions to this; however it would be wise to consult a professional before taking any withdrawals.
   d. 401(k) rollover choices - A tax-deferred rollover occurs when you withdraw cash or other assets from one eligible retirement plan and contribute all or part of it within 60 days to another eligible retirement plan. The IRS has a Rollover Chart summarizing the rollover rules. This is provided as a general guide but should not be relied upon as a substitute for professional tax advice.
4) Other Sources
   a. Savings
   b. Annuities – an annuity is based on your life expectancy. You pay a lump sum to an insurance company, which pays you a guaranteed monthly income either for a fixed term, until your death, or until your surviving spouse's death.
   c. Reverse mortgages – with a reverse mortgage, you trade some or all of the equity in your house for tax-free income from a bank or other lender.
5) Income from Work
   a. Part time jobs
   b. Consulting

Account Maintenance

It is recommended that you take an inventory of all your retirement accounts once a year.

- Keep a summary of basic account data in a safe place, and be sure that a responsible person knows where this is located.
- Be sure to update the information after every life change – marriage, births, death, divorce, relocation, ill health, *etc*. It is especially important to keep beneficiaries updated. Beneficiary information on retirement accounts takes priority over other estate documents (wills, living trusts, etc*).*

Tax issues

When planning, you will want to consider the impact of federal, state, and local taxes on:

1. All of the income types mentioned above
2. Inheritance
3. Capital gains

Tax information can be found on the IRS website and IRS publications, software programs such as Turbo Tax and TaxCut, and from financial professionals.

Legal / Estate Planning

Wills

A will provides for the distribution of property owned by you at the time of your death in any manner you choose (subject to the forced heirship laws of some states that prevent disinheriting a spouse and, in some cases, children).

Your will cannot, however, govern the disposition of properties that pass outside your probate estate unless they are payable to your estate. For example, an IRA or insurance policy payable to a named beneficiary passes to the beneficiary without being included in the estate.

If you die intestate (without a will), your state's laws of descent and distribution will determine who receives your property by default.

Trusts

The term trust describes the holding of property by a trustee (which may be one or more persons or a corporate trust company or bank) in accordance with the provisions of a written trust instrument for the benefit of one or more persons called beneficiaries.

If you create a trust during your lifetime, the trust is called a living trust. A living trust may be revocable (can be changed or terminated during your lifetime) or irrevocable.

Some advantages to using a trust are:

- Reducing estate taxes
- Avoiding probate
- Setting up long term property management

There are many different kinds of trusts to help you accomplish these goals. One of the most common trusts is a credit shelter trust. With a credit-shelter trust (also called a bypass or family trust), you write a will bequeathing an amount to the trust up to but not exceeding the Federal estate-tax exemption (currently $3.5 million). The trust is for the benefit of a named individual or individuals. You also specify how the trust is to be used - for example, you may stipulate that income from the trust goes to support your spouse and that when he or she dies, the principal will be distributed tax-free among the children or other beneficiaries. The remainder of the estate that is greater that $3.5 million passes to the spouse tax-free.

Since your spouse is also entitled to an estate-tax exemption, the two of you can effectively double that portion of your childrens' or other beneficiary's inheritance that is shielded from estate taxes (up to $7 million) by using this strategy. It is essential to note that you and your spouse have separate assets to do this.

It is recommended to get advice from an estate planning attorney and/or a financial professional to decide whether a trust is appropriate for your situation.

Power of Attorney

- Valid in all states, these documents give one or more persons the power to act on your behalf.
- The power may be limited to a particular activity (*e.g.,* closing the sale of your home) or general in its application, empowering one or more persons to act on your behalf in a variety of situations.
- It may take effect immediately or only upon the occurrence of a future event (*e.g.,* a determination that you are unable to act for yourself).
- It may give temporary or continuous authority to act on your behalf.
- A power of attorney may be revoked, but most states require written notice of revocation to the person named to act for you.

With a valid power of attorney, your agent can take any action permitted in the document. An important reason to use power of attorney is to prepare for situations when you may not be able to act on your own behalf due to absence or incapacity.

Living Wills and Healthcare Directives

With the increasing ability of medical science to sustain our lives, people are living much longer than ever before. Unfortunately, as we grow older and experience poor health, we may find ourselves in a position where decisions need to be made as to how we wish to be treated in a variety of medical situations. Further, sometimes we find ourselves in a condition where we can no longer express our preferences. Health care directives prepared in advance allow us to deal with these situations. Without such directives, your family may find it necessary to obtain court orders to deal with your medical situation.

State laws vary concerning the appropriate documents to cover these situations. All fifty states permit you to express your wishes as to medical treatment in terminal illness or injury situations and to appoint someone to speak for you in the event you cannot speak for yourself. Depending on the state, these documents are known as "living wills," "medical directories," "health care proxies," or "advance health care directives."

Regardless of the name your state gives to these documents, their purpose is to allow you to express your preferences concerning medical treatment at the end of your life.

Living Wills
A living will is your written expression of how you want to be treated in certain medical conditions.

Health Care Proxy
A "health care proxy," sometimes called a "health care surrogate" or "durable medical power of attorney," is the appointment of a person to whom you grant authority to make medical decisions in the event you are unable to express your preferences. Most commonly, this situation occurs either because you are unconscious or because your mental state is such that you do not have the legal capacity to make your own decisions.

Obtaining and Maintaining Living Wills and Health Care Proxies: Your personal attorney can provide you with each of these documents. For those who choose to fill them out themselves (an attorney is not required), forms for healthcare directives can be downloaded from: http://www.caringinfo.org/stateaddownload

- Should you change your mind as to your living will decisions or your choice of health care proxy, you can simply destroy the document you have and create a new one.
- Once you have a living will, health care proxy, or advance health care directive, you should keep it among your important papers. Make sure a responsible adult knows where you keep these documents.
- You should also provide a copy of the documents to your regular physician, and bring them with you when you are admitted to a hospital.
- It is also a good idea to discuss the decisions you have made in your documents with family members.

While all states recognize these advance health care directives, the law varies as to recognizing a document prepared in another state. It is probably not necessary to prepare additional documents in case you might vacation in another state. However, if you spend a considerable amount of time living in more than one state, you should consider having advance directives prepared in each of the states.

For more information on legal issues: http://www.abanet.org/rppt/public/home.html

Estate Planning:
Four basic components for estate planning include a will, a durable power of attorney, and advance care directives as described above and also a letter of instructions. The letter of instructions is an informal document that describes any special requests and details financial information that must be taken care of after your death.

Healthcare:

Medicare: Medicare is the U.S. health insurance program for people age 65 or older. Certain people younger than age 65 can qualify for Medicare, including those who have disabilities. The program helps with the cost of health care, but it does not cover all medical expenses or the cost of most long-term care. Medicare has 4 parts:

1. Hospital insurance (Part A) that helps pay for inpatient care in a hospital or skilled nursing facility (following a hospital stay), some home health care and hospice care.

   Most people age 65 or older who are citizens or permanent residents of the United States are eligible for free Medicare hospital insurance (Part A). Eligibilty rules can be found at www.medicare.gov.

2. Medical insurance (Part B) that helps pay for doctors' services and many other medical services and supplies that are not covered by hospital insurance.

   Anyone who is eligible for free Medicare hospital insurance (Part A) can enroll in Medicare medical insurance (Part B) by paying a monthly premium. Premiums for Part B are determined by a “means test”. In other words, some beneficiaries with higher incomes will pay a higher monthly Part B premium.

3. Medicare Advantage (Part C) plans are available in many areas. People with Medicare Parts A and B can choose to receive all of their health care services through one of these provider organizations under Part C.

   If you have Medicare Parts A and B, you can join a Medicare Advantage plan. With one of these plans, you do not need a Medigap policy, because Medicare Advantage plans generally cover many of the same benefits that a Medigap policy would cover, such as extra days in the hospital after you have used the number of days that Medicare covers.

   Medicare Advantage plans include: Medicare managed care plans; Medicare preferred provider organization (PPO) plans; Medicare private fee-for-service plans; and Medicare specialty plans. Also, you might have to pay a monthly premium for your Medicare Advantage plan because of the extra benefits it offers.

4. Prescription drug coverage (Part D) that helps pay for medications doctors prescribe for treatment. Anyone who has Medicare hospital insurance (Part A), medical insurance (Part B) or a Medicare Advantage plan (Part C) is eligible for prescription drug coverage (Part D). Joining a Medicare prescription drug plan is voluntary, and you pay an additional monthly premium for the coverage. You can wait to enroll in a Medicare Part D plan if you have other prescription drug coverage but, if you don’t have prescription coverage that is, on average, at least as good as Medicare prescription drug coverage, you will pay a penalty if you wait to join later.

When should I apply?

If you are already receiving Social Security retirement, disability benefits or railroad retirement checks, you will be contacted a few months before you become eligible for Medicare and given the information you need. You will be enrolled in Medicare Parts A and B automatically. However, because you must pay a premium for Part B coverage, you have the option of turning it down.
If you are not already getting retirement benefits, you should contact Medicare about three months before your 65th birthday to sign up for Medicare. You should sign up for Medicare even if you do not plan to retire at age 65.

For more information and to apply on line: www.medicare.gov

<u>Other Insurance</u>

Remember, most private plans do not cover all health services. In planning your health insurance coverage, keep in mind that most nursing home care is not covered by Medicare or by private health insurance policies.

Medigap: Most people in the Original Medicare Plan have some type of additional coverage to help with expenses that Medicare doesn't fully cover. Buying a Medicare Supplemental (Medigap)

insurance policy is one way to cover the breaks in coverage. Before purchasing a Medigap plan, find out whether or not you can get retiree health insurance from your or your spouse's former employer or union. If you can get it, it may cost less than a Medigap policy and have more benefits, such as prescription drugs. **FYI:** If you drop your retiree health insurance, you may not be able to get it back. Check with your former employer or union before making any decision to drop retiree health insurance.
Private insurance plans: Get in touch with your insurance agent to see how your private plan fits with Medicare medical insurance. This is especially important if you have family members who are covered under the same policy. One important word of caution: for your own protection, **do not cancel any health insurance you now have until your Medicare coverage actually begins.**

Employer-provided group health plans: If you are currently covered under an employer provided group health plan, you should talk to your personnel office before you sign up for Medicare medical insurance.

Health care protection from other plans: Contact the people in those offices to help you decide whether it is to your advantage to have Medicare medical insurance.

Long term care insurance: Long-term care refers to the many services beyond medical care and nursing care used by people who have disabilities or chronic (long-lasting) illnesses. Long-term care insurance helps you pay for these services, which can be very expensive. For more information:
http://www.aarp.org/money/financial_planning/sessionfive/longterm_care_insurance.html

Lifestyle:

Where will you live? For many, a strong network of family and friends is important. When considering a move to another area, think about your social network as well as the cost of living.

It is helpful to plan and map out a strategy. A few questions to ask:

- What will you do with your time?
- How will your family adjust?
- What personal needs are fulfilled by working (money, social life….), and how will you fulfill them if you retire?
- What resources are available to help your transition?
- What are the unknowns you may face?
- What safety nets and preparations are you making for them?

Retirement can be the time to try new activities:

- Joining or increasing your participation in a professional society
- Consulting and other job opportunities
- Activities you always dreamed of, but never had the time for…
- Learning new skills, even if it means starting at the bottom
- Volunteering
    - For a political cause
    - For a cultural institution, such as a symphony, museum, or a charity

- Many school districts, especially in low income areas, would like volunteers to help with reading or math after school.

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List of resources:

General Financial:
http://www.mymoney.gov
http://www.aaii.com/
http://www.marketwatch.com/
http://finance.yahoo.com/retirement
www.sec.gov/investor/links.shtml
http://www.dol.gov/ebsa/publications/
www.money.cnn.com

Programs such as Turbo Tax contain helpful information. Financial services firms also provide many resources.

Certified Financial Planners (Board of Standards website): www.cfp.net

Social security website: www.ssa.gov
AARP: www.aarp.org

American Bar Association: www.Abanet.org http://www.abanet.org/rppt/public/home.html

Medicare: www.medicare.gov

Forms for advanced healthcare directives: http://www.caringinfo.org/stateaddownload

Pension and annuity FAQ: http://www.irs.gov/faqs/content/0,,id=199909,00.html

Estimating retirement savings: http://www.choosetosave.org/ballpark/

Pension Benefit Guaranty Corporation: www.pbgc.gov

Estate planning overview:
http://money.cnn.com/magazines/moneymag/money101/lesson21/

Note: ACS offers these suggestions only as preliminary guidance to get you started in your retirement planning. It does not endorse any particular company, financial advisor or plan.

