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Planning for a Successful Retirement

This essay was originally published in Muhlenkamp Memorandum Issue 109, January 2014. *It is the fifth (and final) essay of the series,* The "FRIDAY FOCUS" on Retirement *by Susen Friday, Client Service Regional Manager.*

Past articles have focused on the structure and history of the various vehicles that are available for saving for retirement. There is one other avenue which needs no elaboration: *If you have exceeded all of the contribution limits on plans and IRAs, simply earmark some of your taxable accounts to be used during retirement.*

This article tackles a more personal subject: "Planning for Successful Retirement."

"How do you see yourself in retirement?" is a question similar to "What do you want to be when you grow up?" In essence, retirement is like a new beginning, so the question must be answered. Everyone has different dreams. Some want to travel, move to a warmer climate, volunteer, start a small business, spend time with grandchildren, or just do all of the little things they haven't been able to get around to doing.

So how will you know when you're ready to take that big step?

First, you will need to determine your current financial status, as well as estimate your available funds and expenses going forward. After you have gathered and organized this information, you must clarify if you have the resources to achieve your dream. Play with it and create different scenarios! What happens when you assume different rates of return, inflation, and spending? Establish how those factors affect the affordability of your dream and make adjustments accordingly. Don't put your worksheets away, however; you must update your status annually to assess if you are on track. (If you have any questions about this process, we will be happy to work with you.)

Once you have your plan in place, share it with your family so that they can be supportive in your decisions and be aware of your desires throughout your retirement.

Social Security

When to take Social Security benefits is a critical decision. There is not one age that works for every individual or couple. Couples, particularly, need to decide which spouse will claim benefits: when and how? This choice alone can mean a difference of several hundred dollars per month.

The first step is to visit www.socialsecurity.gov and see what your monthly benefits are estimated to be at your current age, your official retirement age, and at the age of 70.

Some of the major determinants include:

- Marital status;
- On which spouse's income the monthly payment will be based;
- Whether the individual is unemployed or continuing to work;
- Family longevity;
- Current health; and
- Monthly expenses.

Because every situation is unique, there is no single strategy that applies across the board.

That said, help is available. There are several websites that provide calculators where you can enter different scenarios and they will estimate monthly benefits under each scenario. Many websites charge a fee, but some are free such as:

- AARP (http://www.aarp.org/work/social-security/social-security-benefits-calculator/?intcmp=FTR-LINKS)
- T Rowe Price (http://individual.troweprice.com/public/Retail/Retirement/Social-Security-Tool)

In addition, *Social Security for Dummies* is an easy-to-read guide, not only for deciding when to take your Social Security Benefits, but also in dealing with disability and death of a spouse, among other topics. I recommend it as a great reference book.

Medicare

Medicare presents another decision-tree to navigate.

If you are already receiving Social Security or railroad retirement benefits, you will automatically be enrolled in Medicare Parts A and B at the age of 65. If not, you will have to enroll yourself at age 65.

Your initial enrollment period lasts 6 months; it stretches from three months before the 65th birthday, to three months after. Everyone enrolls in Part A (hospital care), for which there is not a charge. Enrollment in Part B (medical costs), however, is dependent on many different circumstances and currently carries a premium of $105 per month. If your timing and circumstances do not fit the requirements, you can end up with a penalty that does not go away.

Other factors that play a part in how and when you can enroll in Medicare include:

1. Employment and the number of employees participating in an employer provided plan.
2. Whether or not to enroll in Part D (prescription drug program).
3. Do I need an alternate (Advantage Plan) or supplemental plan (Medigap)?

As with Social Security, help is available; both the Medicare (www.medicare.gov) and AARP (www.aarp.org) websites offer guidance. Another great resource is *Medicare for Dummies* by Patricia Barry.

Long-Term Care

Although we are living longer, many are not able to do it independently. Therefore, even more planning is required. What are the options?

Medicare covers hospital stays in blocks of 60 days, including meeting the deductible. If you remain out of the hospital for 60 consecutive days or more, a new 60-day benefit period will begin. If you stay in the hospital for up to 90 days, you will be charged a co-pay. Anything over a 90-day stay in the hospital is the patient's responsibility. If a skilled nursing facility is needed, Medicare will not pay anything on days 1-20. For days 21-100, a co-pay will be charged; over 100 days… you are on your own.

Medicaid is a joint venture of state and the federal government. One of its functions is to provide long-term care for low-income seniors, among others. Each state has its own eligibility requirements based on age, income, savings, and citizenship. Navigating the financial requirements can be tricky; for more information, refer to www.medicaid.gov and www.elderlawanswers.com.

Long-term care insurance policies are another option, but they can be fairly expensive. There are a wide variety of care menus to choose from, enabling customized costs and levels of care. Long-term care insurance policies can help in guaranteeing against cancellation, avoiding premium increases, coordinating care-givers, and protecting against inflation; they can also be used to cover in-home care.

In general, the earlier you make a decision to purchase a long-term care policy, the less expensive it will be. Some insurance companies will offer a ten-year payment plan in lieu of monthly premiums. In many cases, couples can design their policies so that the surviving spouse can add any unused portion of the deceased spouse's benefit to their own.

Currently, there are 25 states where the prices of the policies are the same for both single men and women. This spring, however, leading insurers started introducing new policies that charge single women an average of 40% -60% more than comparatively aged single men.[1]

As with the rest of retirement, planning is key in order to make sure your needs will be met the way you would like.

Living Arrangements

As you grow older and your circumstances change, you might want to consider one or several of the following choices:

1. You can stay in your present home. That may not be a bad choice—as long as you are physically and financially able to keep up with both indoor and outdoor maintenance. As you grow older, however, you might find it somewhat isolating.
2. You can move in with the kids or a relative and, in many cases, that might be the only option.
3. There are many retirement communities springing up across the country. Perhaps, this is your dream solution where you can participate in an active community of seniors—a community that provides restaurants and a wide variety of activities. Some of these communities offer the opportunity to move into assisted-living, when needed. That way you will have a seamless transition, if the need arises. Some of the expenses for this may even be picked up by a long-term care insurance policy.

[1] *American Association for Long-Term Care Insurance*

4. Another solution that is suited to singles (single, divorced, widow, widower) is what I call the "Golden Girl" solution. This is an arrangement whereby several friends, acquaintances, relatives, etc. decide to share a home. This is an opportunity to save money and have valuable companionship at the same time. House sharing is a growing trend, but must be entered into responsibly. That means having a clear set of rules governing household budgets, chores, screening of new housemates, and even how to exit the arrangement. By adopting a set of rules, there is a better chance of making the arrangement work.

If you have managed to work your way through this entire article, you should have learned one important thing. Old age is not for wimps!! If we can assist, please call us at (877)935-5520 extension 4.

The "FRIDAY FOCUS" on Retirement series includes:

'**Memorandum #105:** *History of Pensions*

'**Memorandum #106:** *Pension Plans—Types and Characteristics*

'**Memorandum #107:** *A Primer on IRAs*

'**Memorandum #108:** *Participant and Sponsor Challenges*

'**Memorandum #109:** *Planning for a Successful Retirement*

Muhlenkamp & Company, Inc.
Intelligent Investment Management

5000 Stonewood Drive, Suite 300 • Wexford, PA 15090 • (877) 935-5520 • www.muhlenkamp.com