



Evaluation form

Did You Like the Pre-retirement Series?

How many of the letters did you read? Please circle the number; 1 2 3 4 5 6

Please rate the value of the information to you. Using a scale of 1 to 5 with 1 being the lowest value, check the appropriate column for each item.

Topics	Rating				
	1	2	3	4	5
Sources of retirement income					
Figuring living costs of retirement					
Use of emergency fund					
Use of a revolving fund					
Investments for retirement					
Health Insurance					
Life Insurance					
Property Insurance					
Income Taxes					
Family business records					

What have you done in preparation for retirement because of these letters?
(list or discuss)

What type of information was included that was most helpful to you?

What type of information was included that was the least helpful to you?

What other topics on retirement planning would you have liked included in the series? Please list below.

How many years before you plan to retire? _____

Thank you for cooperating. Please fold, tape together and mail.

MHM: 152

Extension Agent

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COOPERATIVE EXTENSION SERVICE

VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY

Blacksburg, Virginia 24061

MID-LIFE PLANNING FOR RETIREMENT

Letter 6

Dear Retiree,

We have figured our income and our living expense. Maybe you have made a decision about employment and now there are a few important, but less lengthy, items to discuss.

What Tax Advantages Are There?

The golden age for retirees is becoming more golden. The increasing number of people above age 65 is making government and industry stand up and take notice. The "special privileges" for those above 60 will probably continue to increase.

There are tax breaks and situations that need to be considered in retirement planning. The timing for selling a house, or other investments can be important in regard to your age, retirement date (income reduction), and tax laws.

Tax Advantages to Use Now

While you are still years away from retirement there are avenues for tax breaks.

Refer to the savings and investment sections of this series for U.S. Savings Bonds, municipal bonds. Interest on state and turnpike authority bonds is not taxable.

Tax sheltered annuities are available to teachers and administrations in public education systems. Check with your personnel office.

Individual retirement plans are available for persons who are not covered by a company plan. These are similar to the Keogh plans.

Keogh fund plans are available to those self employed, whether full or part time. These plans give tax breaks in two ways: the money you invest in the fund is not currently taxed when you figure your income tax return; and the money earned by the fund each year in terms of interest or dividends is not subject to income tax until you retire and start drawing on the fund. Because of these factors, you have more money to invest and therefore interest is paid on interest so that you have use of more money, free of taxes for a period of years. You can set aside a maximum of 15 percent or up to \$7,500 of your earned income for a Keogh plan. This amount can change, so check with a financial institution for current limits.

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There are penalties if you take the money out before age 59½, unless you become totally disabled. You must take the money out at age 70½.

If you employ persons, usually it is necessary to set up a Keogh plan for them if you do so for yourself.

Keogh plans are available through cooperating banks, savings and loans, insurance companies, mutual funds and other savings institutions.

Tax Advantages after age 65

Some tax breaks that you will receive after age 65 are related to some of the steps you take before retirement. Don't wait until age 65 to familiarize yourself with these. And, of course, changes occur in tax laws.

Social Security and railroad benefits are not taxable. Taxes are not paid on most pension plans until the amount you have contributed is used up. Usually this is about three years. There may be capital gains on investments that you wish to take during these low tax years. This rule greatly reduces the amount of taxable income and therefore puts most retirees into a lower tax bracket. After age 65 you are allowed a double exemption for wife and husband. The amount exempted is \$1,500 for a single and \$3,000 for a couple.

Sale of Residence

To qualify for reduced tax on capital gains from sale of your major residence, you must have used this property for your principal residence for 5 years or more during the 8 year period ending on the date of the sale. If you plan to sell a residence a few years before, at or a few years after your 65th birthday, the Tax Benefits for Older Americans brochure available from the I.R.S. is necessary reading for you.

There are other tax breaks, but these listed are the ones in which you have a choice as to the timing of the sale of residents or other investments to take advantage of your lower tax years.

Refer to:

Tax Benefits for Older Americans, U.S. Internal Revenue Service. Call or write your nearest I.R.S. office for a free copy.

How Will You Get Health Insurance Coverage?

Having enough health insurance, while not buying it wastefully, should be one of your top priorities at any time. At this stage in life, health insurance is necessary because health bills tend to increase with age and we need to protect the financial assets we have accumulated.

The most important factors in buying health insurance are to:

1. Understand the aspects of health insurance. This is needed to be able to make wise selection among the wide range of policies available.

2. Select the insurance program that is best fitted to your needs.
3. Get adequate coverage with the best use of your health insurance dollar.
4. Plan for future changes in your health insurance program as you become qualified for Medicare.
5. Group plans not only cost less, but usually offer better coverage than individual plans. Some group plans through place of employment can be continued into retirement, either as a retirement benefit or at cost to the retiree. Some group policies do not allow you to remain under the group policy, but will allow you to convert to an individual policy. There may be advantages in staying with the same company to prevent a period when you would not be covered by pre-existing conditions.

As you approach 65, you will need to evaluate your present coverage in line with coverage under Medicare.

Because of the importance of this subject and the quality of three publications, it is best that you refer to these rather than reading the small amount of information that could be included in this series.

Before making final decisions, refer to the following resources.

A Brief Explanation of Medicare - DHEW Publication No. (SSA) 73-10043. Call or visit nearest Social Security Office.

Consumer Survival Kit, Here's to Your Health: Medical Insurance, Maryland Center for Public Broadcasting, Owings Mills, Maryland 21117. Very inexpensive and a must for everyone. It is a complete guide to buying health insurance.

Information to Consider In Choosing a Health Plan, U.S. Civil Service Commission, Bureau of Retirement, Insurance, and Occupational Health, Washington, D.C. 20415. This may be available from your personnel office.

To be eligible for the Federal Employees Health Benefit Program after retirement, you must enroll 5 years before retirement date. Enrollment is open only once a year. If you want to consider this group health insurance plan, don't let the dates slip up on you.

Is Your Property Insurance Up-to-date?

How does property insurance relate to retirement? As retirement approaches we need to give full protection to our assets. There is less time to re-coup losses, so be sure there is adequate insurance protection against financial loss.

This subject is included because of the high cost of replacing homes at present day costs. Most home owners are underinsured. Construction costs have risen about 99 percent in the past 10 years. A \$25,000 house built in 1967 would now cost about \$50,000 to replace.

The other element that causes concern is the 80 percent coverage. Unless, the coverage of the policy is 80 percent of the replacement cost, full coverage for any loss is not paid. Consider this example:

A house that was built in 1975 cost \$60,000 (not including land). The policy was written then and still remains at 80 percent or \$48,000. The cost today to rebuild that house is \$70,000. A fire caused \$12,000 worth of damage. Because the insurance was not up-dated to \$56,000 the insurance company would not pay the full \$12,000.

The state of Virginia requires that an automatic one percent a year inflation rate be written into a contract, but during high inflation years this has not been adequate. It is your responsibility to update your coverage. For the last 10 years the rate of inflation is 8 percent increase each year to replace a house.

Are Your Family Business Papers In Order?

The business of living, like estate planning, is important at all life stages. We have to prove that we were born, worked, and died by producing a paper form.

A paper may be valuable because it has monetary value, as a stock certificate, or because it can be replaced only with difficulty. Or it may provide information that saves money, time, or mental strain for someone else. In the process of collecting valuable papers, documents and figures for retirement planning, why not organize them into a orderly system? Also, consider storing them safely.

A safe deposit box or home safe is needed for stocks, bonds, and other negotiable papers.

Other papers such as insurance policies, deeds, birth certificates, marriage licenses, and savings bonds can be replaced, but with real inconvenience. If these are not in a fire-proof place or could be misplaced, a list of these along with the registered number on each should be kept in a place other than the home. Store the list in your office, or in a sealed envelope at a relative or friend's house.

Checks and paid bills should be kept also. It is necessary at times to show proof of payment. If a house is sold, all records for permanent improvements are needed. These costs are deductible for capital-gains tax purposes.

Summary

It is important to consider income tax laws as part of retirement planning. Selling a house or taking other capital gains could be timed for low-income tax years.

The assets that finance retirement must be protected through adequate property and health insurance. Pre-retirement planning involves examining valuable family business papers. This is an excellent time to organize these papers and store them in a safe place.

HAPPY RETIREMENT!!

We hope that these letters have been interesting and valuable to you. Please tell us how you feel about them by using the evaluation sheet attached.

The reference books were listed only for the purpose of information and the VPI & SU extension service does not recommend any one of the reference books to the exclusion of others which might be available.

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