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5 steps to sweeten your retirement

BY JEFF WUORIO, FIDELITY INTERACTIVE CONTENT SERVICES — 02/02/10

If you've been saving like mad but ignoring what you want retirement to look like, stop, take a look and make sure you're covered — for whatever you have planned.

The half-century mark isn't what it used to be. Some 50-ish folks are just now approaching the peak of their careers while others are ready for an early retirement. And more and more people are choosing to make retirement an opportunity to transition to a second career, start a consulting business or pursue other opportunities.

Whatever your situation, one thing is certain: Gone are the days when people retired, full-stop, and threw themselves into a life of golfing and grandkids. And that makes your 50s an important time in your financial life.

If you've been focused on saving for retirement without regard for any specifics as to what, exactly, you'd like that retirement to look like, take a look at these five topics and make sure you're covered—for whatever you have planned.

1. Life expectancy

Forty years ago, a white male could expect to live to age 67. Moreover, the older you got, the less active you were likely to be—pinochle by the pool, with maybe an occasional round of increasingly creaky golf.

That expectation has gone the way of mood rings. Life expectancy has jumped some 10 years. While planners once crafted retirement plans that stopped at age 85, research by Fidelity has found that the chances of one member of a couple living past 90 are about 50%. And older folks are healthier and doing more—a recent *New York Times* article documented how people in their 80s are pursuing everything from wing walking (go on, Google it—it's exactly what you think) to Arctic expeditions.

What to do: Reassess. Step one is getting a sense of how long you and your spouse might live. The University of Pennsylvania has an online calculator that incorporates various factors at http://gosset.wharton.upenn.edu/mortality/perl/CalcForm.html.

If that's too abstract, talk with your doctor.

Next, if you haven't already, map out a formal retirement plan based on your target age. In particular, says Christopher McDermott, Fidelity's senior vice president of Investor Education, Retirement and Financial Planning, consider:

> **How will you retire?** Will you stop working completely, go part-time or start your own business?
>
> **Asset allocation.** The rule of thumb is to take a more aggressive investment posture early and scale back as retirement nears. And, says McDermott, balance your portfolio with funds that will hold value when markets slide.

2. Retirement savings

Now it's time to make sure you'll have the money. Sadly, many Americans are woefully unprepared to retire. According to the Employee Benefits Research Institute's 2009 Retirement Confidence Survey, 53% of American workers have less than $25,000 in total savings and investments.

What to do: Make certain you're saving enough. Many financial Web sites offer tools to help you plan for retirement, including CNNMoney.com and MSN's Money Central, or you can use Fidelity's online retirement

planner. You'll get a picture of your current status and, just as important, what you need to do to get or stay on track. Strategies include:

If necessary, catch up. Tax laws allow people 50 and older to sock away an additional $5,500 on top of the usual maximum contributions to a 401(k), IRA and SEP for self-employed people.

Check fund expenses. Mutual funds are generally a cost-effective way of getting the benefit of professional management and greater diversification than most individuals can afford. But like any other product, make sure the performance is worth the price. Consider two funds that average a 6% annual gross rate of return over 20 years: One fund has 1.5% in operating expenses, which means $200,000 would return $474,102 over 20 years. Trim those expenses to 0.5% and you'd earn an additional $106,000. Remember, though: Performance figures, by law, are calculated to *include* the fund's fees to help make performance comparisons easier. So two funds that both earned 6% did so after fees were accounted for. That means managers at funds with higher fees need to consistently beat their benchmarks by a wider margin to make those fees worthwhile. Surely some managers do, and fees shouldn't be the sole factor in choosing a fund. Check out your retirement funds' expenses at http://apps.finra.org/fundanalyzer/1/fa.aspx.

3. Long-term health care costs

Fidelity projects the average couple will need nearly $200,000 to pay for out-of-pocket medical costs in retirement. Add a serious medical condition, and those expenses explode.

What to do: Prepare for health care. Although Medicare helps pay older folks' medical costs, it does nothing for assisted living or nursing home care. Self-insurance (meaning you pay for care yourself) is pricey. Recent studies put the average cost at roughly $70,000 a year—or $192 a day. If that's unrealistic, look into long-term care insurance. Consider:

How much coverage you'll need. That depends where you live. "For instance, California and New Jersey are high-cost care states—you may want to have coverage of $200 to $300 per day," says Richard Coppa, managing director of Wealth Health, a Roseland, N.J., wealth management concern.

Does the policy cover home care and assisted living? "Many clients that I talk to want to have the option of home care rather than be forced out of their home," says Coppa. If you feel the same, investigate an inflation rider to compensate for higher costs.

Consider buying coverage early. A 50-year-old in good health should expect to pay annual premiums of roughly $2000 to $3000. The longer you wait and the less solid your health, the higher the cost.

4. Estate planning

For many people aged 50-plus, the notion of death is as far removed as it was in their teens. While that's a healthy attitude on one level, it's decidedly unhealthy when it comes to ensuring your estate is handled properly.

What to do: Make certain you have all necessary documents. These include not only wills but any pertinent powers of attorney, health care proxies and living wills. In particular, make certain that all documents meet individual state requirements such as the number of witnesses at signing, gifting provisions and other directives. Make sure they are updated as needed.

Consider trusts. When wills are used, some states' probate laws delay how quickly money may be dispersed to beneficiaries, plus extra legal expenses are often involved (Florida and California are two examples.) Trusts, however, make disbursement of funds faster and less expensive. Make sure to retitle all assets, including brokerage accounts, real estate and even automobiles included in the trust so nothing falls under probate.

Check beneficiaries. Make sure that all IRAs, 401ks and deferred compensation plans have proper beneficiary designations.

A 2009 study by New York City-based Demos, a public policy group, found that consumers 65 and older carried $10,235 in average credit card debt. That's up 26% from 2005. That also means an additional financial obligation at a time of life when every dollar matters.

What to do: Attack debt now. Again, people in their 50s are typically at the top of their earning curve. Here's what to do:

> **Go after your highest-rate first.** The more money you owe on high interest cards, the faster interest charges accrue. Pay these off first.
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> **Consolidate debt.** If you have balances on several expensive cards, merge them into one card with a lower rate. If you think you can do it, use a card with a low teaser rate, often 0% for a year or even longer (yes, they're still around—go to http://www.creditnet.com/Credit_Cards/0_percent_balance_transfer_credit_cards.php for more information.) However, once the teaser ends, the interest rate spikes substantially, so make certain you can pay off the balance before that.
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> **Treat it as a form of saving.** The faster you pay down high-interest rate debt, the more you save. Example: a $10,000 balance on a 10% card means a $200 minimum payment, 22 years to pay off the card and $6,728 in interest. If you double that payment every month, you're free and clear in just two years. Just as important, you save about $5,500 in interest. You can go to http://www.federalreserve.gov/creditcardcalculator/Default.aspx to map out your own debt paydown plan.

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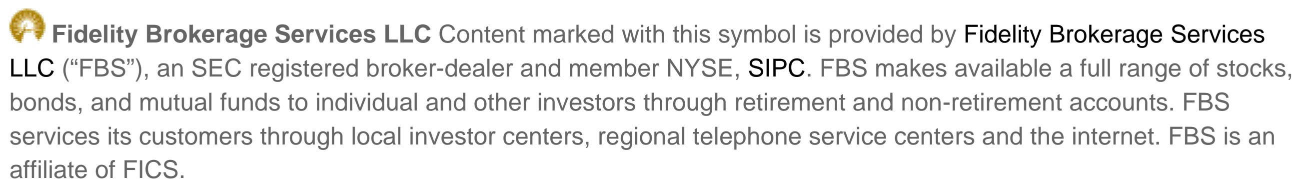

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