

Retirement Planning

This information is meant to be a general introduction to this topic. The purpose is to provide a starting point for you to become more informed about important matters that may be affecting your life as a survivor and to provide ideas about steps you can take to learn more. This information is not intended nor should it be interpreted as providing professional legal and financial advice. You should consult a trained professional for more information.

For most cancer survivors, the time from diagnosis through treatment is focused on the day-to-day concerns of survival and recovery. Long-term planning is often put on hold while the details of treatment, health care team appointments and physical care take over daily life.

After treatment is finished, paying attention to events that seem far off, such as retirement, may seem unimportant or be low on your list of priorities. Yet, as a survivor, you may find that there are new and important ways of looking at retirement planning beyond the obvious benefits of having a plan when it is time to retire. For example, you may be considering:

- Changing your mind about how long you intend to work
- Saving money through your retirement plan because of concerns that there could be future financial or health care needs
- Using your retirement funds as a financial back-up plan if income is needed due to a disability

A good retirement savings plan can ensure that you and your loved ones are financially prepared for these possibilities and more. This document discusses some of the important aspects of planning for and getting a retirement plan if you do not already have one. The main types of retirement plans are described along with important facts to consider about each type of plan.

Keep in mind that there are often changes in Internal Revenue Service rules and regulations that govern retirement plans. You will benefit from doing further research and checking tax rules annually. Also consider talking with a financial services professional or a knowledgeable family member or friend about planning for your financial future.

What is a retirement plan?

A retirement plan is a savings plan in which money is deposited into an account so that it can be invested and grow tax-deferred until you reach a certain age or retire.

- Current law allows you to withdraw the money without paying a penalty fee upon reaching age 59½.
- If it is a pre-tax retirement account, the money you contributed remains tax-deferred while the money remains in the account. This means that the taxes will have to be paid on the money when it is withdrawn from the account.
- If you have already paid taxes on the money you invested in the retirement account (after-tax money), you will not be taxed on that money again.

How could a survivor benefit by having a retirement plan?

There are a number of significant benefits to having a retirement plan including:

1. In the event you become disabled, retirement plans will usually allow you to withdraw the money from the account early with no penalty fees. Whether your condition qualifies as a "disability" will depend on the definition in your particular plan.
2. If you are having problems with creditors, such as bankruptcy, there is often an advantage to having an employer-sponsored retirement plan. Although creditor protection for IRAs will vary from state to state, creditors typically cannot claim money that is in a retirement plan.
3. Many retirement plans are pre-tax. This means that you do not pay taxes at the time you contribute your money, and taxes are not paid on income earned by your investments until you withdraw the money. This is considered an advantage because most people are taxed at a lower rate when they retire or become disabled because their income is typically less at that time.
4. Income earned on the investments in the retirement plan remains tax-deferred or tax-free while the money stays in the plan. Earnings in a retirement account typically include interest, dividends and capital gains or capital appreciation.
5. The earlier you begin to invest, the longer your investment and accumulated earnings can benefit from tax-deferred compounding. Tax-deferred compounding means account balances grow much faster because earnings are reinvested without being reduced by current taxes.
6. There may be growth on the investments inside the retirement plan over time due to interest and capital gains growth. This money can continue to grow tax deferred and could compound while in the retirement plan.

7. The assets in a retirement plan can pass directly to named beneficiaries without having to go through probate, which is a lengthy legal process in which the courts distribute the assets of someone who has died. Typically a retirement plan will ask you to name a beneficiary for the account. If you want your beneficiaries to be able to access money immediately after your death, this is a key provision to consider.

8. Your employer may match or contribute a percentage of the money you invest in your retirement account. If this is the case, put enough money into your retirement plan to take advantage of the extra contribution.

What is important to know about the three types of retirement plans?

If you do not have a plan, or are not certain whether you are making the most of your retirement plan, the following information will help you understand your options. You will benefit from knowing about the three general types of plans that are available:

1. Government-sponsored retirement plans (includes Social Security)
2. Employer-sponsored retirement plans
3. Individual retirement account plans

The following provides an overview of each of these types of retirement plans:

1. Government-Sponsored (Social Security) Retirement Plan:

Social Security retirement benefits are the most common government-sponsored retirement plan. You pay for this retirement benefit through taxes taken from your earned income along with the contribution your employer must also make toward your Social Security retirement benefit account. Social Security withholding and benefit amounts are set by the federal government, and you cannot choose to contribute more or less into this plan.

Social Security retirement benefits are intended only to cover the necessities of life such as food, shelter and utilities. People who receive Social Security Retirement benefits are also eligible for Medicare, which is a federal health insurance program that is for people 65 years or older and for certain younger people who are disabled.

Eligibility Requirements for Social Security Benefits:

When you work, you earn credits toward Social Security benefits. You need a certain number of credits to be eligible for Social Security benefits.

- The number of credits you need depends on your age and the type of benefit for which you are applying. You can earn a maximum of four credits each year. Most people need 40 credits to qualify for retirement benefits (a total of 10 years).

Social Security retirement benefits begin when you reach retirement age. Your annual Social Security statement will give you specific information about your own personal benefits. While you can receive reduced benefits starting at age 62, full benefits start at the Full Retirement Age (FRA) that is determined by the year in which you were born.

- To determine your FRA and learn more about benefits, eligibility and other information, contact the Social Security Administration (SSA).
- You can receive some increased benefits if you wait until age 70 to collect Social Security retirement benefits.
- The amount of your other income or assets does not affect your eligibility for the standard retirement benefits after the FRA.

If you do not qualify for Social Security Retirement benefits:

Social Security pays disability benefits to people who cannot work because they have a medical condition that is expected to last at least one year or result in death. Certain family members of disabled workers can also receive money from Social Security.

If you are advised that you do not qualify for Social Security retirement benefits, consider looking into the following:

- If you become disabled, contact the Social Security Administration to see if you qualify for Supplemental Security Income (SSI) or Social Security Disability Income (SSDI). Apply as soon as possible, because it may take many months for your application to be processed. SSI benefits may be reduced or forfeited, depending on how much monthly income an individual earns.
- If you do not qualify for retirement benefits because you are missing only a few credits, contact the Social Security Administration to find out how much money you would need to earn this year to make up those credits. The income does not have to be spread over the entire year to be credited. You just need to earn enough money throughout the year to get four full credits for the year.
- If you are a veteran who served 20 or more years, contact the Department of Veterans Affairs to see if you are eligible for veterans' benefits.
- If you are a railroad employee, check with the Railroad Retirement Board to see if you are eligible for their retirement benefits.

2. Employer-Sponsored Retirement Plans:

This type of retirement plan is created by the employer to provide employees a way to save for retirement. Employers are not required to have retirement plans, and, if one is offered, it may not apply to all employees, such as part-time employees.

Some employers make all the contributions. Other employers contribute matching funds to their employees' plans at a specified percentage rate if the employee adds money to his or her own plan. Employees may have the choice of how much they want to contribute to their own plan. They may even be given some choices as to how their money is invested.

The 401(k) plan is the most common type of employer-sponsored retirement plan. Other types include profit-sharing, money-purchase, SEP-IRA, SIMPLE-IRA, 457 plan (state and government organizations), 403(b) plan (nonprofit organizations) and Keogh plans.

For information about your employer's plan, contact the plan administrator or benefits coordinator. Ask for a copy of the summary plan description and the latest annual report. Keep in mind that you are not required to disclose your cancer history when asking questions about your plan.

3. Individual Retirement Plans:

An IRA plan is set up by a financial or investment professional using a bank account, brokerage account, mutual fund account or insurance contract. There may be tax advantages and money may be withdrawn if you become disabled and meet the definition for disability as spelled out by the plan. Withdrawals from your plan may also be allowed for a first-time home purchase, medical expenses and/or health premiums or higher education expenses. The federal government limits the amount of money that you can contribute to this type of plan each year.

The most commonly used plans are Traditional Individual Retirement Accounts (IRAs), Roth Individual Retirement Accounts (Roth IRAs) and Keogh Plans. There are also pension plans, including defined benefit pensions and cash balance pensions. However, pension plans are rarely used by an individual when setting up a retirement plan.

An investment adviser at your bank or a qualified financial planner can help you set up an individual retirement plan. Before deciding to open or participate in a plan, find out:

- Whether there are restrictions on income limits
- If there are early withdrawal penalties and when they apply
- When you are allowed to make withdrawals
- If there are other rules that may be important to you, such as whether there is the ability to withdraw money for medical purposes or if you become disabled

Key Features of Individual Retirement Plans:

1) Traditional IRA

Tax savings occur when you make a contribution. Contributions may be fully deductible, partially deductible or not deductible, depending on the amount of your income, your spouse's income and any other retirement plans you may have. Contributions must be

from "earned income," also called FICA (Federal Insurance Contributions Act) wages or self-employment income, and not from interest, dividends, rents or capital gains.

Consider these facts about Traditional IRA plans:

- Investment earnings in the IRA are tax-deferred.
- Tax is payable when you withdraw from the account, regardless of whether it is the original contribution or its earnings.
- Withdrawals from the account before age 59½ will be subject to a penalty unless you meet certain conditions.
- There is a maximum amount you can contribute each year.
- Investors age 50 and older can make "catch-up contributions," which are additional contributions that exceed the usual limits set by the plan.
- Investors are required to begin minimum required withdrawals during the year they reach age 70½.
- As owner of the account, you choose how the funds are invested.
- There are a number of IRS rules that apply to whether or not a Traditional IRA is tax deductible.

2) Roth IRA

Contributions are made after paying taxes on the income (non-deductible). Roth IRA earnings accumulate tax free and remain tax free when withdrawn through a qualified distribution. Tax savings occur when you make a withdrawal instead of when you make the contribution; the contributions are not tax deductible. Contributions must be from earned income FICA wages or self-employment income and not from interest, dividends, rents or capital gains.

Consider these facts about Roth IRA plans:

- All earnings accumulate tax free as long as funds are held for at least five years.
- Distributions of the amount you contributed can be made at any time without tax or penalty.
- The Roth IRA must be held for at least five years before you can take a distribution of earnings without paying a penalty or income taxes.
- Distributions of earnings without penalty can be taken after reaching age 59½ or if you become disabled.
- The amount that can be contributed each year depends on your income.
- The Roth IRA is particularly good for people who have a low income now, but who expect a larger income on retirement.
- Contributions can be made at any age.
- There is no withdrawal requirement.
- The investor chooses how the funds are invested.

3) Keogh Plan

This is a tax-deferred retirement savings plan for self-employed individuals and their employees, or individuals with supplemental self-employment income. Keogh plans are not as frequently used as they once were. Self-employed individuals now typically use SEP-IRAs (Simplified Employee Pension plans) and SIMPLE 401(k) plans (Savings Incentive Match Plans for Employees) because they allow for more flexibility of contributions. Employees can contribute to both types of plans in the same year and the amounts can vary each year, although there is a maximum yearly contribution. There are defined contribution plans that are based on a contribution formula and defined benefit plans that are based on a benefit formula.

Keogh plans can be further defined as the following types:

- Money Purchase - employer's contribution is mandatory at the same percentage each year
- Profit Sharing - allows for changing contributions by employer each year (determined by a formula)
- Solo 401(k) Plan - allows 401(k) employee deferrals plus employer profit sharing contributions
- Paired Keogh - combination of money purchase and profit sharing

Profit sharing, money purchase and defined benefits plans can now be adopted by sole proprietors, partnerships and other incorporated and non-incorporated businesses.

4) Annuity

An annuity is an insurance contract sold by a life insurance company that provides payments at specified intervals, usually starting at retirement. Buying an annuity is like putting money into a retirement plan because the earnings from annuities are not taxed until the funds are withdrawn.

There are two kinds of payment options:

- **Immediate payment annuity:** Purchased with a single payment and begins to pay out right away.
- **Deferred annuity payment:** Delays income payments until the holder of the annuity chooses to receive them.

Fixed and variable annuities are different types of investments that are based on how you invest your money while you are contributing to the account.

Fixed annuities are investments that grow with a guaranteed interest rate (such as 4 percent or 5 percent) every year.

Variable annuities are investments that grow based on the investments used, such as stock or bond market investments. They are variable in that the value of the account changes every day based on the markets in which you are invested.

Both types of annuities are considered to be relatively safe investments. They are considered to be very "illiquid" or not quickly and easily converted into cash.

Consider the following facts about annuities:

1. If you withdraw money before you reach a certain age (usually 59½), you will have to pay a 10 percent federal tax penalty for early withdrawal.
2. If you withdraw money during the early years of an annuity contract, many annuity contracts impose a substantial "surrender charge." This is a fee charged for ending the annuity contract before "maturity" or the date originally set for payments to start. The surrender charge can be quite large because it is usually based on the principal or original investment and not the interest.
3. There is no limit on the amount of your contribution to an annuity, but contributions are not tax deductible. Certain states limit contributions to annuity contracts because of illiquidity.
4. An annuity may have a death benefit equivalent to either the current value of the annuity or the amount the buyer has paid into it, whichever amount is greater.
5. If the owner dies during the phase when money is being put into the annuity, his or her beneficiaries will receive the accumulated amount in the annuity. This money is subject to ordinary federal and state income taxes in addition to estate taxes. Taxes will have to be paid by the beneficiaries when the owner dies.
6. Annuities usually should be considered only after you have contributed the maximum amount allowed to your other retirement accounts.
7. Immediate fixed annuities might be appropriate if you want an assured income for a specific period of time.

An annuity requires a long-term investment holding period (such as 10 to 20 years) before allowing for withdrawals. A life insurance broker, bank or investment adviser can provide you with more detailed information about annuities.

Can a survivor be eligible for more than one kind of retirement plan?

Contributions to a government-sponsored plan, such as Social Security, are fixed and cannot be adjusted. If you are eligible for more than one non-governmental retirement plan, you will get the most benefit from your money if you make your contributions in the following order:

1. First, contribute to employer-sponsored plans that provide matching contributions from the employer. For example, your 401(k) plan contributions are often matched as a percentage amount specified by the employer. Your employer's contribution is "free" money, so it is usually in your best interests to contribute the maximum amount that you can each year to obtain the employer's matching contribution.

Be aware of any "vesting period" requirement of your plan. The vesting period is the length of time you must work for the employer before the plan shares are owned by an employee. Typically, if you terminate your employment before you are fully vested, the company can buy back the shares at their original price.

2. When you are certain that you have contributed enough to your employer-sponsored plan to take full advantage of the employer's contributions (you have received the maximum matching contribution allowed), consider a Roth IRA. To qualify for a Roth IRA, you need to meet a specified adjusted gross income limit.

3. After you have exhausted the possibility of investing in a Roth IRA, look back to your retirement plan at work to see if you can make further pre-tax contributions. Because you have already received the maximum matching contribution to the employer-sponsored plan by this step, additional contributions you make to this plan will be pre-tax, but will not receive further matching funds.

4. Next, consider contributions to plans that do not permit pre-tax contributions, such as a taxable brokerage account or a taxable mutual fund account.

5. After all other possible retirement accounts have been funded, look at other ways that would allow access to money prior to your retirement, because you do not want to take money out of an annuity before the age of 59½.

How can a survivor estimate their financial needs during retirement?

There are several steps you can take to get a good idea about the income you are likely to need when you retire. Take some time to consider your future financial situation.

1. Estimate retirement expenses:

While there is no way of knowing what your actual retirement expenses will be, a general guideline for estimating is that expenses during retirement will equal 80% of the amount of your expenses while working.

- This estimate assumes that you are planning to maintain the same standard of living when you retire that you had while working.
- If you want to live differently when you retire (such as travel or buy a vacation home), then you will need to save more money.

2. Identify expected retirement income:

Determine the expected sources of income during your retirement to see if you will be able to pay for anticipated expenses.

- If you expect to qualify for Social Security retirement benefits, visit the Social Security Administration's Web site to obtain their estimate of your future monthly SS benefit income. Check your annual Social Security statement for an estimate of the benefits that will be available to you when you retire.
- Add up your income from all sources including retirement plans, investments, savings and any other possible income. Include income that you can expect to have later even if you do not have it now. For example, if you plan to rent out a room in your home, consider the expected income you are likely to receive from rent payments.

3. Deduct your estimated expenses from your estimated income. This will enable you to see whether you will have enough money during retirement. If it appears that you might not have enough money, look at your expenses to determine if there are any you can reduce. If not, you might decide to talk to a trusted family member, a friend or a financial planner about any concerns you have and what steps can be taken to improve your financial future.

How do retirement plans affect taxes?

Most contributions to a retirement plan are tax deductible. This means that you do not immediately pay taxes on the part of your income that you put into a retirement plan, so your tax liability is reduced for the year in which you made the contribution.

Earnings on money in a retirement plan are not taxed until you take the money out of the plan. It is expected that your income level will be lower after you retire, resulting in a lower tax payment.

How can a survivor learn about retirement plan options if they do not already have one?

A retirement fund can be set up through many of the same methods as other types of investments. You can set up a fund on your own, or work with a financial or investment adviser to do so.

- **If you are an employee**, find out if there is an employer-sponsored retirement plan available. The human resource or benefits department should be a good resource for this information.
- **If you are self-employed**, check to see whether there is a trade group or professional organization that sponsors retirement plans. Also, look into the possibility of setting up a SEP-IRA, a SIMPLE-IRA or Keogh plan.

- 1) A SEP-IRA plan allows employers to contribute on behalf of employees as a tax-deductible business expense that can be combined with Social Security contributions.
- 2) A SIMPLE-IRA plan is for companies with fewer than 100 employees and may also be set up as a 401(k). This type of plan avoids some administrative fees and paperwork requirements.
- 3) A Keogh plan, or self-employed pension, is a tax-deferred qualified retirement plan for self-employed individuals and unincorporated businesses.

What can be done to prepare for a more secure retirement?

There are some basic guidelines that can help survivors prepare for financial success in your retirement planning process:

1. Invest as much money as you can possibly afford into your retirement plan.
2. Diversify your investments as much as possible by spreading your investments out into several different types of assets, such as:
 - Large company U.S. stocks
 - Small and mid-size company U.S. stocks
 - International stocks
 - Bonds
 - Cash

Within each of these groups, you may want to also diversify among several different businesses and industries, and possibly currencies. This way, a downturn in one company or industry will not affect all of your invested money.

3. Ask the fund administrator how you can transfer retirement funds without incurring taxes. The most common type of transfer is a rollover from an employer's retirement plan to a Traditional IRA. For example, after you leave a company you were working for, you can rollover your old 401(k) to a Traditional IRA. If you transfer funds between retirement accounts, never take direct possession of the funds. If you do, you will owe a significant tax on your federal return.
4. Consider consolidating your retirement plans (if you have more than one) to simplify management and eliminate duplicate fees.
5. Keep in mind that if someone other than you runs the retirement plan (a "trustee"), there will be a fee for this service. Since there is no standard fee for trustees of retirement plans, you may want to check with the banks in your area for a trustee that provides what you need at a reasonable cost.

6. Store copies of all records relating to your retirement accounts in a safe place, such as in a fire-resistant box or filing cabinet.
7. Check the registration of any beneficiaries with your employer or IRA agent or the custodian on your retirement accounts to be sure they are up-to-date at least once a year.
8. Remember that financial and investment planning do not end once you have a plan. Periodically reviewing your financial plan will ensure that it will continue to meet your changing needs.

What can survivors do if they have questions about retirement planning?

For questions about retirement plans you have, or about creating a retirement plan in general, you may choose to speak with:

- A financial planner, preferably one that is certified with educational qualifications and is paid on a fee basis instead of commissions
- An independent accountant who is qualified in this area
- An independent registered investment adviser at a brokerage firm
- A brokerage house registered representative or salesperson
- A professional pension specialist
- Your employer's human resources department, if you work for an employer that offers a retirement plan

If you already have a retirement plan or plans, gather information about each, including the terms of the plan, the contact information for the trustee, and statements for at least the last year. Keep a copy of any written retirement plan proposals to avoid misunderstanding.

What is important to know if you choose to work with a financial planner or investment adviser?

If you choose to work with a financial planner or investment adviser, you can get assistance with the creation of a financial plan, including a detailed retirement plan. However, because there is limited regulation in the financial planning industry, you need to make certain that your planner has the appropriate training, licenses and professional certification, as well as expertise specific to your needs.

You can typically find investment advisers affiliated with financial institutions, such as:

- Banks
- Brokerage firms
- Credit unions
- Insurance companies
- Mutual fund companies
- Savings and loan associations

When you contact a professional, you can help speed the process (and reduce possible fees), by bringing the following documents to your first meeting:

1. Tax returns for the past three years
2. A list of all your assets, including the form of registration and liabilities
3. A list of your estimated income and expenses
4. An estimate of your income and expenses at retirement
5. A list of your goals, including goals for retirement

Make certain that the fees charged and investment products you purchase meet your needs. For example, carefully inquire about products recommended to you, and find out whether there are any additional fees charged for the plan, such as a commission for the purchase of a financial product.

Find out how the financial adviser you are interviewing is compensated. Some work for a fee only, while others work for a fee and commissions. It may be a good idea to work with a financial planner that is paid a set fee rather than a commission. Remember that the final decision about who to work with and what products to buy is yours. Be certain that you are comfortable with any recommendations that you accept from someone else.

There may be many benefits for you if you take the time and energy to research and plan for retirement. Whatever your situation, there are things you can do now to establish a better financial future. You may want to discuss retirement planning with a financial services professional, a trusted family member or friend.

Works Cited

Lance Armstrong Foundation Survivorship Topics
www.livestrong.org

.....

MOST Survivor's Notebook

U.S. Department of the Treasury, Internal Revenue Service. *Publication 590: Individual Retirement Arrangements*. Washington, D.C: IRS Individual Forms and Publications Branch, 2004.

Landay, David S. *Be Prepared: The Complete Financial, Legal and Practical Guide to Living with Cancer, HIV and Other Life-Challenging Conditions*. New York: St. Martin's Press, 1998.

"Retirement Income." www.nefe.org. 2005. National Endowment for Financial Education.

U.S. Department of Labor, Pension and Welfare Benefits Administration. *What You Should Know About Your Pension Rights*. 1995.