Foreword by Teresa Heinz Kerry

What Women Need to Know About Retirement

A joint project of the Heinz Family Philanthropies and
The Women's Institute for a Secure Retirement

Edited by Jeffrey R. Lewis and Cindy Hounsell

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Foreword

By Teresa Heinz Kerry

There is great beauty, and great valor, in every woman's struggle to leave her mark on this world. We all know the women and the stories: The bravery of a single mother juggling two jobs; the strength of a grandmother who still goes to work every day to help raise her grandchildren and save enough to one day retire; the amazing grace of our aunts and sisters and best friends fighting to overcome breast cancer or another illness. The poise of every young woman who refuses to listen to the ads and institutions that tell her she is only valuable if she is blonde, and thin, and perfect.

We must celebrate these women's stories and what they tell us—that we are not alone, and that we can change the way things are. Today, at the start of the 21st century, when a woman decides to take her finances into her own hands, and to provide for a secure and comfortable and dignified retirement, she is confronted with having to make many complicated choices and many difficult decisions. And it's not surprising, then, for a woman to feel overwhelmed, alone and on her own.

This book and its authors are here to tell all working women two important things. First: You Can Do It. Second: You Are Not Alone. We are here to share the practical wisdom gained from experiences like yours, to help you take control of your life and prepare for your retirement.

We have to help each other prepare so that you, your mother, your sister, your daughter, your best friend, won't end up like so many elderly women today who are living in poverty and despair and disrespect. Many of these same women lived comfortably before retirement. Poverty in our country has a distinctly feminine face. The largest growing segment of our population is poor, elderly women.

We shouldn't let this happen in our lives. We must take charge and have faith that in unity there is strength, in knowledge there is power, and in our action there is a future.

Over the last several decades, women across generations have knocked down barriers in the workforce. Today we are doctors and lawyers and CEOs. We build cars and ships and machines and microchips. We design new products that protect our environment and our health. We tend to the sick and cure diseases. We drive trucks in wars. We are senators and governors. We are waitresses and chefs. And at the end of the day, we are still the caretakers of every home — the glue that keeps things from spinning into chaos. When our children, our spouses, or our parents need care and caregiving, we are called on and we are there.

This is what we have accomplished together after decades of hard work. And this hard work must continue in order to achieve equal pay, pensions, and the chance to be caregivers and not be penalized for it in retirement.

Today, our retirement system still functions as if most of the workers in America were men. But with 69 million women in the workforce—and 10 million of them the sole breadwinners in their families—it is time and past time to bring our retirement policies into the 21st century.

Women must do what we do best: take charge ourselves. The question is how. How do you juggle and try to balance one more thing when you are already so heavily burdened? How do you plan for 30 years down the road when you'd be happy getting through the chaos of the day: getting the kids to school, getting to work, and getting home at night?

I hope this book provides you with some answers. They aren't quick fixes, but they will help you get on a path to economic security. I have reached out to some of the most passionate and dedicated people and asked them to focus on writing clear and comprehensive chapters about different aspects of personal finance and retirement planning.

The financial security of women is something I have cared about for more than a decade. It is very personal. After losing my first husband, John Heinz, in a plane crash in 1991, I felt overwhelmed and helpless. Fortunately, I did not have to worry about financial problems. But I began to think, "What if my circumstances had been different? There are many who feel the way I do but few who are as fortunate. What can be done for those who find hardship behind each door?" That was the beginning of a personal commitment and vision for me.

That is why, a decade ago, I established the Women's Institute for a Secure Retirement (WISER) as part of the Heinz Family Philanthropies' efforts. We have now reached millions of women with timely and practical information about their financial rights and opportunities. We continue to lead efforts in Washington to change the laws that discriminate against women and saving.

At WISER, we have learned that most people—and most women—simply don't know the facts about women and retirement. For example, women still earn only 77 cents to a full-time working man's dollar.

Two-thirds of all working women earn less than $30,000 a year in jobs without pensions. Over a lifetime, women will spend 27 years in the workforce, while men will spend almost 40 years. Because women will leave the labor force to have children and care for family members, women retirees (and only the lucky ones at that) will receive about half the pension benefits retired men can count on. This also means a smaller Social Security check for women—who often count on it for the lion's share of their retirement income. Women live longer than men, which means they have to think about extended health care and long-term care costs.

It may seem that the decks are stacked against women. But once we understand and state the obvious differences between men and women when it comes to the workforce and retirement, we can begin to fix the problems they present. You have already started to do something by picking up this book, because this book tells you what you need to know. This book will tell you what you can do to start saving, and be your map for navigating the mazes of pensions, Social Security and Medicare. And it is important to reiterate that it is still important to save, even a little, while you are paying off your student loans.

A lifetime of hard work should bring economic security and the resources to enjoy a retirement earned over many working years.

It's time to close the wage gap and enforce and strengthen anti-discrimination laws. It is time to focus on increasing retirement security for *all* Americans by increasing private savings, pension stability, and protecting Social Security. And it is time for us to get to work and rid the current system of inequities facing working women.

We all know that women are the chaos managers of our society: juggling children, spouses and work in and out of the home. And I hope that this book will provide you with the tools you need to make that juggling a little easier.

Once you begin to learn and save and work toward your own retirement goals, perhaps you will share your story with someone else you know and care for or care about. These are the stories we all look forward to hearing the most: the ones filled with grace and dignity after a lifetime of work and care. That's the story we all dream of, and together we will write it by taking charge of our own financial destinies.

And, as you read this and have a story to share, please email me (teresa@heinzoffice.org), or write me a letter in care of the Heinz Family Philanthropies, 1101 Pennsylvania Avenue, N.W., Suite 350, Washington, D.C. 20004.

Finally, let me thank and applaud the efforts of Cindy Hounsell, the President of WISER, and Jeffrey Lewis, the WISER Board chairman, for bringing this information, at no cost, to all the women, and any enlightened men, who will read it.

Teresa Heinz Kerry

Dedication

In a conversation one day, Teresa Heinz Kerry, the chairman emeritus of the Women's Institute for a Secure Retirement (WISER), challenged WISER staff to compile a book about retirement issues that would provide women with information they could readily use. She believed, as do we, that because women live longer and because they are the majority of the nation's caregivers, that it was especially important for them to know how to take control of their own retirement future—if they don't, no one else will.

WISER began in 1996 because Teresa believed that all women needed access to up-to-date and easy-to-understand information about how to take control of their own financial lives, and to learn what they could do to assure their security in their retirement years.

Teresa has supported our work annually and without her help, encouragement, and vision, WISER could not have grown to bring together the partnerships and organizations that have helped us to reach millions of women. Teresa personifies the definition of a Renaissance woman.

Along the way, award-winning Broadway producer and director, Bill Haber, heard about what we were doing and immediately sent funds to further our work.

To create this book, we brought together a group of experts from across the United States to work with us on this project—a book on women's retirement issues that would be available to all women for free. Like Teresa, these individuals contributed their many diverse talents but all shared in the belief that we can and must make a difference.

There are others who provided help—including all WISER Board members and its Advisory Council. Special appreciation goes to Wendy Button, Maudine Cooper, Vickie Elisa, Mary Murphree, Camille Murphy, Mary Pettigrew, Donna Purchase, Anna Rappaport, Alma Morales Riojas, Margaret Scott, as well as Jenny Backus, Laurel Beedon, Bill Benson, Chris Black, Jeremy Button, Bonnie Coffey, Cheryl Gannon, Frank Gannon, David Koitz, Reina Montes, Bobbi Munson, Kathy Stokes Murray, Grant Oliphant, Martha Patzer, Charles Richardson, and Cliff Shannon.

But, eight individuals stand out because of their individual and collective commitment to helping women get a hand up, not a hand out: Melinda Blinken, Jerry Hodge, Lyle Howland, Ellen Levine, Karen Judd Lewis, David E. Shaw, Billy Tauzin and Elizabeth Vale. Each is a WISER Hero.

A unique group of women stands out because of their courage of conviction, women who reminded me every day why what we are doing is so important: Jessica Catto, Judy Davenport, Lori Ferrell, Peggy Grossman, Coco Kopelman, Dominique Laffont, Wendy Mackenzie, Singer Rankin, Doris Reggie, Linda Smith, Allyn Stewart, Diana Walker, and Wren Wirth.

And Cindy Hounsell (WISER's president) who personifies how one person really can, and does, make a difference every day.

WISER's mission, our goal, our desire is easily stated but hard to achieve: We want to help reduce and ultimately eliminate the poverty of America's older women. Our success is measured by the knowledge that every day, the poor, older women who have for far too long been out of sight and out of mind in America, increasingly are being seen and served and respected.

We have made a good start. We have come far. We still have a long way to go. If you have any questions, comments or ideas, please send me an email at jlewis@heinzoffice.org, or send a letter to Jeffrey R. Lewis, Chairman, Women's Institute for a Secure Retirement, 1101 Pennsylvania Avenue, N.W., Suite 350, Washington, D.C. 20004.

And every day we draw inspiration from the memory of the late Senators John Heinz and Patrick Moynihan and Congressman Phil Burton—to whom this book is dedicated.

Jeffrey R. Lewis, Chairman

Chapter One: Women and Retirement Income: Some Facts to Get You Thinking

By Cindy Hounsell
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Planning for the future can be a daunting task. The younger you are, the easier it is to put it off until next month or next year. The older you are, the harder it is to find the time and the energy. Both men and women need to plan for how they will pay the bills during their retirement years. But it is especially important for women, who live on average four years longer than men and as a result need more income. It's important to understand the facts and learn how to plan for the future.

Over the next two decades, nearly 40 million women will reach retirement age. Unfortunately, our nation's retirement system was created at a time when men were the primary wage earners and women worked at home; the system has not kept up with the times.

Some women today are fortunate enough to be able to rely on a stable retirement income based on three sources known as the three-legged stool: 1) Social Security benefits, 2) income from an employer-provided retirement plan, and 3) individual savings. In theory, these three legs stand strong and provide enough income to pay the bills, cover health care costs, weather unforeseen tragedies like illness or the death of a spouse and, in the case of Social Security, adjust fully to rising inflation. However, for most women, that three-legged retirement stool is wobbly at best. Many older women rely on Social Security as their only income source in retirement; they have no retirement plan and little savings. Many also took time out of the workforce to raise children or to take care of a family member who was ill, and often when they returned to work, it was to low-wage jobs with no benefits. Women take an average 13 years out of the workforce for family caregiving.

Generally, financial experts suggest that people plan to replace between 70 and 90 percent of pre-retirement income if they want to maintain their current lifestyle during the estimated 20 to 30 years spent in retirement. But because of their longer lives, lower pay and lack of benefits, women need to replace even more than that—some experts suggest at least a 100 percent replacement rate.

Why Women Are Falling Short: Some Basics

To spend their retirement years in comfort and security, women must start planning early. The first step in this process is understanding why retirement security is so elusive by looking at some of the most basic and troublesome facts about women's earnings, work status, life expectancy, marital status, and retirement income:

Earnings

- Two-thirds of working women earn less than $30,000 a year.
- Nearly half of all women work in low-paying jobs without retirement plans or 401(k)s.
- Women earn on average 77 cents for every dollar earned by men.

Work Status

- Women are more likely than men to work part-time. Part-time employment is associated with lower wages, fewer opportunities for promotion, a lower likelihood of pension coverage and eventually smaller benefits.
- Over a lifetime, women will spend 27 years in the workforce, compared to almost 40 years for men.

Life Expectancy

- Today, an average woman's life expectancy at birth is 80.1 years, compared to 74.8 years for men. If a woman lives to age 65, she can expect to live until the age of 84 or 85—about four more years than a man.

Marital Status

- Between the ages of 75 and 84, only 34 percent of women are married with a spouse present. For women age 85 and older, only 13 percent are married with a spouse present.
- With the death of a spouse, a woman often experiences a steep drop in income—from her spouse's pension and even from Social Security.

Retirement Income

- The median income in 2004 for retired women was $12,080 compared to men's income of $21,102.
- The poverty rate in 2004 for single white women age 65 and older was over 20 percent; that rate was double for single African American and Hispanic women.
- Social Security continues to be the only source of income for one in four unmarried women.

The Three Legs of the Stool

Many older women rely on **Social Security** as their primary or only source of retirement income—it keeps almost 40 percent from falling into poverty. However, Social Security replaces only 40 percent of an average worker's wages. That 40 percent is not enough alone, and the fact that they are without other sources of income such as pensions or savings is one of the major reasons why so many older women live at poverty's door.

Private pensions and retirement savings plans such as 401(k) or 403(b) plans are the second leg of the retirement stool. They are a valuable part of a retirement income package, but they are not always available to women. Less than one-third of retired older women today receive pension income. And the situation is not improving. Less than half of working women have access to a private pension or retirement plan at their jobs. Additionally, women often leave jobs before vesting in a pension benefit, and because the dollar amounts they receive are smaller, they tend to spend all or part of any lump sum distribution they receive from 401(k)-type plans.

The third leg of the retirement security stool is **individual savings.** Because of the changing nature of employer-provided pensions and savings plans, women must save on their own and save more than men—not only because they live longer, but also because they are more likely to have higher expenses for health care, long-term care and prescription drugs. Unfortunately, women’s lower average earnings and more time out of the workforce for caregiving make it difficult for them to save the amounts needed for retirement.

Today’s vs. Tomorrow’s Income Security

Times have changed since the “three-legged stool” was conceived. Over the last several decades, women’s labor force participation has increased dramatically. Today, the majority of women in every age group are in the labor force. Unfortunately, our retirement income system has not responded to the change in the composition of the workforce, and this is one of the primary reasons why the traditional three-legged stool of retirement is so wobbly for women. Even though women have worked in some capacity their entire adult lives—raising children, caring for an ill parent, as well as joining the paid labor force either full- or part-time, millions of women find themselves with few financial resources when they look toward the future, and many are vulnerable to the real possibility of poverty in their retirement years.

It is clear that without significant changes, women’s work patterns and caregiving responsibilities will continue to place them at a disadvantage in our nation's retirement system. As long as women earn less, live longer, and experience more interruptions from paid work and work in the types of jobs that do not provide benefits, the bleak retirement picture will remain largely the same, and retirement security for millions of women retirees will remain elusive.

While we can hope that public policymakers will adopt changes to prevent poverty in old age, there are things women can do to seize control of their own economic future and make the most of the existing system. Our goal at WISER through the distribution of this book is to educate as many women as we can reach, to provide them with the knowledge they need to take meaningful steps toward controlling their financial future.

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WISER publishes a quarterly newsletter, if you are interested in subscribing, subscriptions are available for $12. Just send your name, address, and a check to WISER, 1101 Pennsylvania Avenue, N.W., Suite 350, Washington, D.C. 20004.

10 Ways to Become Financially Wiser!

1. Save More. Most people do not think about financial matters from a long-term perspective so they do not estimate how much money they will need for retirement, or if they do, they vastly underestimate how much they will need.	**6. Don't count on working**. Plan early! Many workers will retire before they expect to, and before they are ready. Nearly four in ten people retire due to poor health, caring for a family member, or job loss.
2. Accept that you will probably live longer than you expect. Individuals are expected to manage their own retirement funds. Many will plan for the average life expectancy, not realizing that this means that half of the people will live longer. The big risk for women is that they will outlive savings.	**7. Deal with inflation**. Inflation is a fact of life that workers usually deal with through pay increases. After retirement, it is up to people to manage their own assets, or secure guaranteed income. Few people have the skills to manage income to keep up with inflation.
3. Learn about various sources of retirement income. Workers misunderstand what their primary sources of income will be in retirement. Social Security is the most important source of income for many people, but before retirement, they tend to vastly underestimate its importance.	**8. Face facts about long-term care**. Many people underestimate their chances of needing long-term care. Relatively few people either own long-term care insurance or can afford to self-insure a long-term care situation.
4. Learn how to manage your retirement savings plan. Due to the growth of retirement savings plans such as 401(k) and 403(b) plans, workers are now responsible for managing their investments. Most workers lack basic financial knowledge but need to become experts about work benefits.	**9. Provide for a surviving spouse**. Many married couples fail to plan for the eventual death of one spouse before the other and the resulting drop in income at the time of widowhood. Many more single women live in poverty in old age.
5. Look for good advice. A significant portion of retirees and pre-retirees do not seek the help of a "qualified professional." Yet, while they indicate a strong desire to work with a professional, most ask friends and family for advice.	**10. Make your money last for a lifetime**. People often pass up opportunities to get a lifetime pension or annuity, failing to recognize the difficulty of making money last for a lifetime. People say guaranteed lifetime income is important, but in practice they usually choose a lump sum. ***

This checklist is drawn from the work of the Committee of Post-Retirement Needs and Risks of the Society of Actuaries and the content and recommendations in the report, "Public Misperceptions about Retirement Security," published in 2005 by LIMRA International, Inc., the Society of Actuaries, and Mathew Greenwald & Associates, Inc. The Committee has identified the areas in which the public does not understand the realities of retirement planning and that serve as barriers to individuals creating a good solution in this era of individual responsibility.

START PLANNING TODAY USING THIS RETIREMENT INCOME CHECKLIST

Like many of us, you may dream of the day when you can stop working and enjoy a comfortable retirement. This checklist provides you with some important choices to consider in order to make wiser decisions through your working years and your retirement years.

- ✓ **How much will you need?** Make an estimate of how much monthly or annual income you will need in retirement.
- ✓ **What are your sources of retirement income?** Think about what sources of retirement funds will be available and how much you will receive from each, including Social Security, employer retirement plans and your own personal savings.
- ✓ **How long will you live?** In planning for retirement, it is important to consider how long you might live. While on average people who reach 65 live into their 80s, a few live to 90 and beyond.
- ✓ **What if your spouse dies first?** If you are married, find out which benefits will continue if you or your spouse should die first.
- ✓ **How will the cost of living change in the future?** When you estimate your retirement income needs, remember to include the impact of inflation. Costs are likely to rise each year, and the impact of these increases over time can be quite large.
- ✓ **How will you pay for healthcare?** Consider how you will pay your medical bills. Are you eligible for Medicare or other medical insurance?
- ✓ **How do you handle the unexpected?** Be sure to take into account how you would handle potential emergencies, such as home repairs, unexpected medical bills or family emergencies.
- ✓ **What if you need assistance in your retirement?** Consider how your retirement income would be affected if you needed long-term care, assistance at home or special housing.
- ✓ **What will you do in your golden years?** If you have specific plans for retirement, such as travel, consider how you plan to pay for it.
- ✓ **How will you manage your retirement money?** Consider how you will be able to manage your funds and what the right mix of investments is for your retirement needs. Investments include stocks, bonds, annuities, money market funds, your home, other real estate and other savings.
- ✓ **Have you thought about estate planning?** Estate planning is an important part of your plan for retirement. Seeking expert advice in this area can greatly assist you.

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Chapter Two: A Lifetime Money Plan

By Elizabeth Warren and Amelia Warren Tyagi
www.allyourworth.net

Our friend Michael was in his 40s when he decided he really wanted to live a long, long time. So he seized on vitamins as the answer. He read the latest studies, haunted the health food stores, and pestered his doctor about whether he got enough zinc. He was on the subscription list for a half dozen magazines that always had alarming headlines, and he took nearly a dozen odd-smelling pills every day. Of course, he still ate junk food and smoked a pack a day; and his idea of exercise was to give his thumb a workout on the remote control. Michael had his first heart attack at 52, a bypass at 54, and by 56 he had to quit work entirely.

Our Aunt Bee had a different approach to life. She just wanted to live well. Sometimes she remembered to take a multivitamin, and sometimes she didn't. But she walked every single day. On sunny afternoons, in steady rains, in nasty sleet, the neighbors would catch sight of Aunt Bee out for her walk. She ate moderately, she took care of her teeth, and she laughed hard. And right up until she fell ill at the age of 99, she spent her days helping out her neighbors, knitting coverlets for her nieces and nephews, and making exotic jell-o salads for every church gathering.

Taking care of your retirement plan isn't much different from taking care of your health. Just as you can spend all your time worrying about vitamin pills, you can spend every weekend reading about Roth IRAs and changes in the tax code. And, if you make some clever decisions, it may help some. But Aunt Bee had the real wisdom: The best way to get ready for the future is take care of yourself, each and every day. The surest path to a long and prosperous retirement is to give yourself a secure financial life, day in and day out, starting right now.

Preparing for Retirement: A Lifetime of Financial Good Health
The key to a secure retirement is to build a sound financial base today. Once you start to think about a lifetime money plan—a plan that covers all your financial needs—you can see your retirement in a new light. Retirement isn't some special, distant, different time. Retirement is simply another phase of your life. You may not be working after you retire, but you will go on living. In the same way, you will have less income, but you will go right on paying your bills. And like Aunt Bee, if you learn good financial habits now, you'll have plenty of time to laugh hard and enjoy time with your loved ones.

You may be thinking, "Getting my financial house in order sounds hard!" We're not going to fool you—if your idea of budgeting is to buy what you want and pray you have enough to cover it—then it may be hard. But we've broken it down into five simple steps:

1. Balance your basic bills.
2. Pay off your debt.
3. Build your emergency savings.
4. Pay off your home.
5. Build your retirement savings.

These five steps will help you build a strong financial base that will see you through all of your tomorrows—before and after you retire.

First, Balance Your Bills

To build your lifetime money plan, start with what's most important—your basic necessities. These are the "must-have" bills—those you need to pay month in and month out, no matter what. This includes your rent or mortgage payment, utilities, insurance, car payment, regular medical bills, and any legal obligations (such as student loans). If you pay for daycare so that you can go to work, it goes with your must-have bills. The list also includes a basic food allowance (just the bare essentials—T-bone steaks and restaurant meals don't qualify as "must-have" bills). Add all these regular expenses up, and call the list your "Monthly Must-Have Expenses."

Generally, you should be able to cover your monthly must-have expenses on 50 percent of your take-home income. That's right—half your money can go to must-haves. If you keep your must-haves to 50 percent of your income, you will have plenty left over to spend for fun, and enough left over to save for your future. Keeping the must-have expenses in balance will give you a solid foundation for your lifetime money plan.

What if you can't manage your bills on 50 percent of your income? Then this is a strong sign that it is time to cut back. Maybe you should send back the rent-to-own television. Maybe it is time to move to a smaller apartment or to trade in the car for something cheaper. Maybe you need to share expenses with a roommate or a family member. Do whatever you can to get your basic expenses down to half of your income. These can be tough choices, but in the long run you'll live happier and rest easier if you start to get your budget straight now. Take a closer look at your expenses with the help of a worksheet available at www.wiserwomen.org.

What if you just can't get it to 50 percent right now? Then get as close as you can. If you are spending 65 percent of your income on must-haves, maybe you can bring it down to 55 percent. It's not perfect, but it would be a big step toward building a more secure future. And once you've done your best, set a goal for getting your must-haves into balance. Maybe it will be in a year, once you finish paying off your car. Maybe it will be in two years, once the youngest child starts kindergarten and your daycare bills go down. The point here is to keep your eye on the big picture—your long-term financial health. It may take a while until you get everything under control, but every step you take in this direction makes your life better today and tomorrow.

Second, Pay Off the Debt

The medical bills from last year's visit to the emergency room. The money you borrowed from cousin Charlie that has been hanging out there for over a year. The Visa card balance that has bounced around for more than a decade.

You don't need a scrapbook. Your bills tell your history. Every debt, every monthly payment, every dollar you owe is a claim against your future.

Americans from all walks of life are carrying more debt. Kids still in college, married couples with kids, single men and women, rich people and poor people—debt is everywhere.

And yet, when most people think about planning for retirement, debt is nowhere in the picture. (And when experts talk about retirement, many seem to assume that no one has any debt.) But the reality is that the over-50 crowd is carrying more debt than ever before in history. They have credit cards and car loans, and many are responsible for student loans they took on to help their children through college. The average Social Security payment is about $12,000 a year—not even enough to live safely in many places, let alone comfortably—and certainly not enough to cover extra debt payments. And that debt is taking its toll: The elderly are now the fastest growing group in bankruptcy.

Debt can be tough on anyone, but hitting your retirement years dragging along a pile of IOUs is a recipe for disaster.

So how do you do it? Getting rid of your debt is a two-part process. The first part is to stop taking on new debt. This is the moment to look yourself in the mirror and say out loud: "No more debt."

If you are ready to get really serious, pull out the scissors and cut the cards into little pieces. Once you have made the commitment not to take on any new debt, it is time to start tackling the old debt. We wish there were some magic secrets to quick and painless debt repayment, but there isn't. Getting out of debt is basically just a matter of paying off your old bills, one at a time, until they're gone.

Start by adding up all your debts—the credit cards, doctor bills, past-due bills—everything down to the money you borrowed from your cousin. Include all your debts except your mortgage, student loans, and car loans. Write them down, whip out the calculator, and add them up.

Then start paying them off, one at a time. Meanwhile, keep right on making your minimum monthly payments on the other debts. Once the first debt is paid off, pick another debt, and get that one paid off. Go through your debts one at a time until you are debt-free.

Where do you get the money?

Here is where it pays to keep your must-have expenses in balance. If you are spending about half your money for the basics—mortgage, car payment, insurance, and the like—then you have roughly half your salary left over for everything else. This means you should have plenty of money to cover stuff you want (but don't absolutely need), like new clothes and an occasional restaurant meal, and money to start getting caught up on your bills. A good guide is to earmark 20 percent of your paycheck to debt repayment and savings. When you balance your bills, you will have money left over to repay debts and begin saving.

There are no short-cuts and no quick fixes. So beware of traps "to get out of debt quick" because they can end up costing you more money in the long run.

Here are some common traps to watch out for:

The Trap	The Dangers
Cash out home equity	Puts your home in jeopardy. Once you sign on the dotted line, the bank has the right to take your home unless you pay back every penny. Keeps you from building wealth for your future.
Credit counseling	Beware. Many dishonest companies claim they'll help fix your credit and get you out of debt, but they just make your problems worse. If you need help, contact the *National Foundation for Credit Counseling* at 1-800-388-2227, or www.nfcc.org and avoid the others.
Credit repair kits	Waste of money! The only way to repair your credit is to check your report for errors, and pay your bills on time.
Debt consolidation loans	They add extra fees and interest on top of what you already owe, costing you more money. They can hurt your credit rating.

If it seems like a long road to pay off all your debts, just remember this—you are not just paying off your debt, you are building a brighter future. Getting these debts paid off will change your whole outlook, making each step a little lighter—and your future a whole lot more secure.

Third, Build Your Emergency Savings

The third step in getting your financial house in order is to build your emergency savings. This is your safety cushion, the money that will stand between you and the things that can go wrong. You can call on your emergency savings if your car's transmission goes on the fritz or if you get sick. It is there so you always have a cushion in your account, so you never, ever have to pay another bounced check fee. It is the ultimate "sleep tight" insurance, since it gives you the confidence that you can handle whatever life throws your way.

Having money in emergency savings is the guarantee that you won't have to slip back into debt. This is how you make sure that the little things that go wrong in life are just that—little. You can manage life's bumps and bruises without raiding your retirement account or hitting the credit card.

The goal is to build a nice, comfortable bank balance—enough money so you can be really and truly confident about your money. Aim to save about three months pay. You don't need anything fancy, just an ordinary savings account you can tap whenever you need it. This is the money that lets you rest easy, because you know you will be able to handle pretty much anything life throws your way.

Fourth, Pay Off Your Home

Imagine a home of your own. Not just a house that you live in, but a home that is all yours. No mortgage payments, no rent checks. A home that is completely, 100 percent paid for, free and clear. Yours.

Sixteen years ago, Stephen Acosta broke his back in a motorcycle accident. He was lucky to regain the use of his arms and legs, but his days climbing around on construction sites as a licensed electrician were over. Between the medical bills and the lost income, he was pretty much wiped out. He was just out of rehab when his house was posted for foreclosure.

Stephen got a repair job in an electronics shop, and then took a second job working weekends as a security guard in a downtown office building. He cut his spending to the bone, and pretty soon he was caught up on the mortgage. “I kept picturing that orange sign on my front door, saying someone else was gonna take my house. And every time I thought about it, I got mad all over again, and I sent another hundred bucks to the mortgage company. I figured they could take my whole paycheck, but I’d never let them take my home.”

Three months ago, Stephen threw a big party. He invited all his friends, and his mom came, too. After everyone arrived, he thumped his fist on the table, telling everyone to be quiet because he had an announcement. All eyes turned to a big green bowl with some papers in it. Stephen explained that this was his mortgage, he had paid it off and gotten it back from the bank, and he wanted everyone he loved to witness while he burned it. “Everyone cheered while I fired it up. Then my mom cried, and I even choked up a little. I pulled myself out of a hole and now this place was mine forever—no matter what.” Sound good?

The fourth step in your lifetime money plan is to create a plan to pay off your home. Paying off your home is the double win in the savings world—a tremendously smart financial move that is also tremendously satisfying. After all, where else can you build substantial wealth and smile over your flower bed, all at one time?

Paying off your home is a great part of your retirement plan. When it comes time to retire, you can live rent-free, which means that your Social Security and retirement savings will go a lot further. If you end up in a situation where you need a lot of cash, you can sell your house and move to something smaller. And if you stay in your home until your last days, the house will be a wonderful legacy to pass along to your children or to your favorite charity.

Paying off your home also does something many financial planners neglect to mention: It gives you freedom. Once that mortgage is gone, just imagine all the freedom in your wallet. Freedom to spend more money on fun, freedom to give more to the people you love, freedom to work a little less and play a little more. Think of this as yet another form of sleep tight insurance.

How do you pay off your home? A little at a time. Squeeze out some extra money from your monthly spending and put a second check in with your mortgage payment (about five percent of your take-home pay is a good target). Or if you get a Christmas bonus, put it toward paying off your mortgage. If your mom gives you money for your birthday, or if you get some unexpected overtime pay, put it towards your mortgage.

There are lots of ways to do it, but the main thing is to begin. The goal is to chip away at your mortgage, so that you pay it off faster. If you keep making the extra payments, you can get your mortgage paid off years ahead of time—all while saving yourself tens of thousands of dollars.

Now that's a smart financial move.

But what about the mortgage interest tax deduction? A tax deduction is no reason to prolong your mortgage payments! Think of it this way—if you were a professional gambler, your gambling losses would be tax deductible. But does that mean a gambler wants to lose money? No way!

Still not convinced? Consider the math. Let's say you are paying $1,000 a month towards your mortgage; $700 goes to interest and $300 goes to principle. You would save around $175 on your taxes. So you want to keep paying $1,000 to the bank so you can save $175? Of course not. Math like that will drive you to the poorhouse in a hurry. As a friend of ours once said, "The problem with tax deductions is that they are like paper towels. You have to spill your own milk (make the payments) before they help you sop up some of it."

But what if you plan to sell your house? If you sell your house, you walk away with the equity—and the equity increases for every dollar you pay down on the mortgage. When you sell the house, the cash is yours, whether you plough it into another home or just shove it in your pocket.

But doesn't it make sense to borrow against your home when interest rates are low? Whether you are borrowing to pay down your credit card debt, play the stock market, or travel to Tahiti, borrowing against your home is still borrowing—period. It is not saving, it is not smart, it is not savvy. A second mortgage or a home equity line of credit is dangerous, because it gives the mortgage lender the right to take your house away if you get behind on your payments. So just pay down your mortgage, and bask in the knowledge that one day you will be completely, contentedly debt-free.

But what if you don't own a home? Should you rush right out and buy one? Should you decide your future is hopelessly lost forever and crawl into your apartment bathtub and pull a mattress over you? No and no.

If you don't own a home, it may make sense to buy—or it may not. Buying a home is not the right choice for some people. And renting is perfectly fine—on one condition: Renters still need to keep saving. The money you would have used to pay down your mortgage should go into your savings. If you're not a homeowner, you will need extra money when you retire so you'll be sure to have enough to cover the cost of an apartment.

Now, Create a Retirement Fund

You have paid down your debts. You have built an emergency fund. Now for the part that usually comes to mind when you hear the words "planning for retirement": Create your retirement fund.

You know that you need to save for retirement, but it seems tough. There is some good news. The government gives tax breaks to help you save for retirement. Your employer wants to help you save for retirement. You have years for your retirement account to grow, which means that a little savings goes a long way. In other words, this is really easy. You just need to do it.

- Sign up for your retirement plan at work. You'll get automatic tax breaks for every dollar you put in, so the government gives you an immediate boost. (You may have a plan that gives the tax break when you retire rather than with your contributions.) And your company may give you matching contributions, which really is like free money lying on the table. So be sure you reach over and pick it up.

- Create your own retirement plan: If your boss doesn't offer a retirement plan, open an IRA (Individual Retirement Account) on your own. (If you are self-employed or if you run a small business, open a SEP-IRA or an individual 401(k), both of which offer higher savings limits and extra tax breaks to small business owners.) IRAs are easy to set up; you can open one through your local bank or through an online financial institution. Look for an IRA that has low fees and plenty of investment options. Once you've opened your account, just start contributing. The government will help you fund your IRA by chopping down your taxes, so take advantage of it—it's like walking around with a bucket when it's raining money.

How much should you put in your retirement accounts? Roughly 10 percent of your take-home pay. If your employer contributes to a pension or savings plan, you can put in less; if you are over 35 and you are just getting started on saving for retirement, you should put in more.

Once you have put some money in your retirement fund, sit back for a minute and congratulate yourself. Half of all Americans never make it this far. If you have a retirement account and you are putting money in it, then you have just made it into the upper half (financially speaking) of all adults in the U.S. Congratulations!

So how do you build your retirement savings? A little at a time. Think of it this way. How do you eat a huge meal? One bite at a time. How do you make a long trip? One mile at a time. How do you build a big house? One brick at a time. You wouldn't say, "I can't possibly eat the whole meal!" or "I'll never get to Milwaukee!" You would just keep at it, one step at a time—and not think much more about it.

Okay, you already know this. So here's the next question: How do you get half a million dollars in your retirement account? Here's a hint: The answer is not "Win the lottery" or "Inherit a bundle from a long lost uncle." The answer is that you will get $500,000 by saving a little at a time. Save, and keep on saving, and you'll make it sooner than you think.

Still not persuaded that you can build that mansion one brick at a time? Maybe the math will convince you. Suppose you earn $50,000 a year. Now suppose you stick with your retirement plan, setting aside roughly 10 percent of every paycheck for your future and investing it sensibly. In 15 years, you'll have more than $130,000. And in 25 years, you'll have nearly half a million dollars.

Take a look at the table, which shows you how much your savings can grow if you put aside 10 percent of your paycheck.

How much can you save?

Your annual income	Savings (10 percent of estimated after-tax income)	Amount you will have in 25 years*
$30,000	$2,160	$288,001
$40,000	$2,880	$384,002
$50,000	$3,600	$480,002
$60,000	$4,320	$576,002
$70,000	$5,040	$672,003
$80,000	$5,760	$768,003
$90,000	$6,480	$864,003
$100,000	$7,200	$960,004

*Average 12 percent annual return (same as U.S. stock market, long term). [1]

Do those numbers look big? They should! Once you begin to add to your savings, the effects of compound interest begin to kick in. Your savings produce interest, and that interest becomes more savings. After a while, the interest on your money is working harder than you are, pulling in interest and earning returns faster than you invest every month—all because you started saving a little at a time.

Even if you don't get it perfect—even if you don't save the full 10 percent or you don't set up your retirement account right away—saving something is always better than saving nothing. Every dollar you save is a dollar toward a brighter future.

It's Your Tomorrow

Retirement isn't all about calculators and special accounts. But if you spend some time setting things up ahead of time, your retirement can be so much richer. Maybe you have something luxurious in mind, like plenty of money for travel or a villa nestled in the hills. Maybe you want to spend your time on a favorite hobby, or strolling along the beach. Maybe you want to be able to help out your family. Or maybe you just want a paid-for house and plenty of time with the grandkids.

No matter what the details, some up-front planning can help you create a retirement fund that will enable you to accomplish the most important objective: When the time comes, you can retire in comfort and dignity. This means having money to cover your basic needs, money for your health care, money to let you pay your own way. It can mean there will be no need to call on the charity of others, and no need to continue working longer than you are physically able. And, with a little luck, it means having money for your dreams.

[1] This example doesn't adjust for taxes or inflation. On the other hand, it also assumes that your income doesn't increase by a single dollar in the next 25 years. In all likelihood, your income *will* increase, and as your income grows the amount you invest will at least keep pace with inflation—or better.

Chapter Three: Understanding Stocks, Bonds, and Investing in Financial Markets

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Even though there's a pretty good chance you have some money invested in the stock market, the charts, ticker symbols, and jargon of the financial markets can leave many of us feeling like we've gone to another planet. TV reporters spend a lot of time talking about how well the Dow did or where Treasury yields are headed … but what does it mean?

More importantly, what does it mean to you?

This chapter can't decode all the ins and outs of stocks and bonds, but it should help you with the fundamentals so you can make the right investment choices for your future.

For many people, the stock market and discussions about bonds and mutual funds make them tune out. But with the decks stacked against women when it comes to preparing for their retirement, investing is one of the best ways to make your savings go a long way.

Some people approach investing as if they were shopping for a car. Some are drawn to the flashy convertible. Some want the sedan with a few bells and whistles that will get them to and from work in comfort. And some want the sturdy old station wagon. No matter how you approach investing your retirement savings, the most important thing is to know the basics so that you can make sound financial decisions.

Nobody can predict the stock and bond markets. Generally speaking, you have to accept some risk in order to have a chance to receive some reward. If anyone promises you a very high return with little or "no" risk, be skeptical. While relatively safe investments sometimes double or even triple in value in a short time, this is a matter of luck, not a sure thing. So the more knowledge you have, the better your chances are of having your retirement savings work for you for decades after you retire.

Let's begin with the basics facts about stocks and bonds.

Stocks 101

A **stock** is a measure of ownership in a company. Stock is sold in units called **shares**, each of which represents a bit of the company. Most major companies have literally millions of shares divided up among different people and financial institutions, all of which are collectively called **shareholders**.

Because investors are constantly buying and selling their shares, the price per share (the number you see quoted when you look up a stock or see a news story about it) changes every day and sometimes minute to minute, depending on how often the stock is traded.

Think of **stock trading** as organized haggling.

Someone who wants to buy a stock makes a bid of a certain amount of money per share and announces how many shares he or she wants. Meanwhile, investors who want to sell their shares are setting the asking price that would-be buyers will have to pay; this works a lot like an asking price when someone is selling a house. There are millions of people in the market and everyone is trying to get the best deal they can, so prices can move wildly in just a few minutes.

Any number of factors can influence a company's stock price, which is where the risk factor comes in. Sometimes a company or a whole industry simply becomes fashionable or falls out of favor, like Enron and many of the dot.com Internet companies did.

Investors also tend to react strongly to new information (or even rumors) that lead them to believe that a stock price will move up or down.

New information that indicates a company is doing better than expected tends to make its stock go up, while bad news can have the opposite effect as shareholders put their stock up for sale.

Investors are especially sensitive to news that affects a company's profits because a company that is making money (a profit) instead of losing money is obviously more likely to stay in business and even thrive. Every company that has publicly traded stock is required by law to report its financial performance every three months in a **quarterly earnings report**. This report includes an estimate of how much money the company made (or lost) per share. A good report can mean good news for the stock price.

However, the reverse can happen as well, with stocks going down after a company reports good news (maybe it wasn't good enough) or up after a bit of bad luck (maybe it was better than what most people expected).

What is the Difference between a Bull Market and a Bear Market?
When demand for stocks is generally rising (pushing prices higher as the number of would-be buyers climbs), we are in a **bull market** period.

When demand for stocks falls and prices slump, we call it a **bear market**.

Both bull and bear markets can last months, years, or even decades, but nobody has found a way to reliably predict when they will begin or end. (Sad, but true.)

How Do Stocks Make (and Lose) Money?
When you own stock, you don't get interest like you would earn if you kept your money in a savings account, but certain companies do pay **dividends** to every shareholder. Dividends are the way companies distribute their profits to the investors who own them and are entitled to share in their success. The amount paid per share tends to change as the company's profits rise and fall. This is one reason why investors watch those quarterly earnings reports so closely. Depending on the company, dividends can be paid every quarter, once a year, or whenever the board of directors decides to distribute the profits.

Old or conservative companies like banks and utilities generally pay dividends because they no longer need to use their profits to grow or improve their operations—they've gotten about as big as they're going to get, so they might as well share the profits. Younger companies in more innovative industries like computer technology or drug research tend to skip the dividend payment and plow those profits back into their research or marketing budgets.

When these growth-dependent companies ruled the market back in the 1990s, dividends became an endangered species, but they're making a comeback now as investors return to more tried-and-true types of stocks.

The other way to make money from stocks is to sell your shares for more than you paid for them. This is the old **"buy low, sell high"** approach that you've probably heard about.

It sounds easy in theory, but it's hard to achieve consistently because nobody really knows in advance the perfect time to buy or sell. Most advisors believe that the average person is better served by simply buying quality investments (of any type) at a reasonable price and then holding onto them until she needs the money to fund retirement or for some other purpose.

Of course, what counts as a "reasonable" price depends on your investment goals and how much you're willing to pay to achieve them. The ability of stocks to become more valuable is called **capital appreciation**, and your profit (or **capital gain**) from buying low and selling high is simply the difference between the two prices. Naturally, it's possible that a stock will decline in value after you buy it, in which case you would be looking at a **capital loss** if and when you sell. Every company is different, and there's no easy way to pick a winner.

What Are the Dow, S&P, and NASDAQ?

There are about 15,000 U.S. stocks that change hands every day, but not even Wall Street professionals can keep constant track of them all. Instead, people talk about the performance of the "stock market" as a whole, and Wall Street has developed some gauges to give investors a clearer perspective on where "the market" is moving. These are the various **averages** or **indices** that people make such a big deal about when they talk about financial markets. Think of them as thermometers, except instead of measuring temperature, they tell you whether the stock market is heating up or cooling down.

The Dow Jones Industrial Average (the "Dow") is the oldest and most famous index. It is an average of the stock prices of 30 of the largest companies, each hand-picked by the editors of the company (Dow Jones) that publishes *The Wall Street Journal*. These are McDonald's, Disney, Microsoft, and other household names—big stocks like these are called **blue chips**.

Since 30 stocks is only a small sample of the very biggest multi-billion-dollar companies, the Dow doesn't always provide an especially accurate reading of where the entire market is going.

The Standard & Poor's Index of 500 Stocks (S&P 500) provides a wider sample of the market. When this index was created back in 1957, those 500 companies accounted for about 80 percent of the total value of all American stocks, and even today, this index provides a fairly accurate look at what's driving the stock market as a whole.

The Nasdaq Composite Index (Nasdaq) contains about 3,100 of the more than 4,000 stocks that are bought and sold on the electronic NASDAQ network. This is the index that included many of the most famous (and infamous) high-tech and Internet companies of the late 1990s.

There are more indexes than the "big three" that offer investors options.

The Russell 3000 brings together 3,000 stocks that account for about 92 percent of the value of the entire stock market. They trade on both the NASDAQ and **The New York Stock Exchange (NYSE).**

The Dow Wilshire 5000 index is even more extensive, covering a large percentage of the stocks traded on the major exchanges. Despite its name, the Dow Wilshire 5000 is actually made up of approximately 6,700 stocks, drawn from a wide range of small, medium, and large companies. Its goal is to track practically every publicly traded stock, so it is often called the "total" market index.

How Can You Invest in Stocks Wisely?
Now that you have an overview of what stocks are and understand some of the factors that make their prices move, it's time to start talking about how you can invest in them.

In general, most individual investors should avoid owning individual stocks, because if you bet most of your money on the health of a single company, you become vulnerable if something goes wrong with that company.

What Are Mutual Funds?
A **mutual fund** is a financial product that combines the money of many individuals like you. The company that operates the fund collects the money and keeps track of how much each person puts into the pot.

Professional investors called **fund managers** determine what to buy with the money to deliver the best returns they can find, depending on the type of mutual fund. Some funds concentrate on various types of stock, while others hold bonds (more on those in a moment).

Because most mutual funds bring together tens or even hundreds of millions of dollars, fund managers have the money to spread out among many investments such as different stocks, for example. This is an advantage because it means that as an investor in the fund, you own a small slice of each of those stocks—possibly as little as a fraction of a share, but still some real amount worth a certain amount of money.

In other words, by dividing your savings into all of these small investments, mutual funds let you **diversify** and reduce the risk that you'll lose big if one of those stocks melts down.

What Is a Stock Mutual Fund?
Unless you are willing to bet on individual stocks, funds are probably the way to go. **Stock mutual funds** will invest in individual stocks for you, while spreading your risk. You can still lose money, but it's generally less risky than choosing a single company's stock.

It would be hard to find two stock funds that are exactly alike. **Large-cap** funds invest in only the biggest companies (generally, these companies are worth tens or even hundreds of billions of dollars) while **small-cap** funds focus on smaller ones. **Mid-cap** funds, naturally enough, fall somewhere in the middle. **International** funds invest in foreign stocks; some concentrate on just a specific country. There's a whole group of **emerging markets** funds that invest in stocks from countries that have yet to develop their economies to the extent of areas like the United States, Japan or Western Europe. Specialized **sector** funds focus on a particular industry, like technology or health care. Every stock fund has its own investment approach and its own balance of risk to potential returns.

However, the main distinction you need to know is between **actively-managed** funds and their **passively-managed** (or **index**) counterparts. As their name implies, actively managed funds are run by people who take an active hand in managing their investments. These managers are constantly making decisions about which stocks to buy, which ones to sell and which ones to hang onto. When you invest your money in one of these funds, you're really betting on the managers' ability to buy the right stocks.

Index funds are considered "passive" because their managers simply buy the stocks that make up a specific market index, like the S&P 500. They don't make any active decisions on which stocks to own, and so they don't have the costs of actively-managed funds for things like research or high-powered investment advice. This translates into savings for you in terms of lower overall fees over the long run.

Even the best active manager can have a bad year, and there's no guarantee that you'll be able to pick the best manager. Over the long haul, research shows that you would generally be better off investing in index funds that follow the stock market as a whole.

The Big Secret of Stock Investing: Fees Matter

Now that you know the stock basics, you're ready for perhaps the most important information in this chapter: fees matter.

There's nothing magical about index funds. If the index they track goes up, the fund goes up with it, and you make money. If the index goes down, the fund goes down, and you lose money. Actively-managed funds tend to be a lot more expensive than index funds, and these added costs take a bite out of the money that these funds can make for you.

Every mutual fund company charges its investors an annual fee in order to cover its costs, pay its managers and other employees, and make a profit. This fee, called the **expense ratio**, varies widely from fund to fund, but is always a percentage of the money you have in a particular fund. For example, if you have $1,000 invested in a fund that carries an expense ratio of 1.83 percent, the fund company will automatically deduct $18.30 from your account.

In late 2006, the average actively-managed stock mutual fund carried an expense ratio of 1.49 percent, or $14.90 on every $1,000 you invest. On the other hand, you can find index funds that charge as little as 0.07 percent, or 70 cents on every $1,000. While performance will vary from fund to fund and from year to year, this fee gap means that, everything else being equal, your actively-managed fund has to beat the index fund by an extra 1.42 percent every year just to break even. Over the long haul, there aren't too many active managers who can do that.

If you invested $1,000 in an index fund and your friend invested the same amount in an actively-managed fund—both returning the same eight percent per year—after 10 years, you'd have $266 more than your friend because the average managed fund costs so much more than the index fund. Go back to 20 years ago, and you'd be ahead by $1,071 today.

Whether you choose an index fund or an actively-managed fund, focus on lower fees.

Many mutual fund companies also make investors pay an added fee called a **load**. There are several types of loads, but they all boil down to a sales charge or commission—again, a percentage of your investment—that you pay either to buy into a fund or sell your shares. There's no evidence that funds that charge a load do any better over the long run than those that don't, so you should definitely avoid the added fees whenever you can. There are over 2,000 no-load funds to choose from.

What Types of Index Funds Are Out There?
Just as there are several indices that track stock market activity, several varieties of index funds exist.

You can buy shares of index funds that only invest in the 30 stocks of the Dow Jones Industrial Average, but while these companies are some of the biggest and most reliable blue chips in the world, a portfolio with only 30 stocks in it isn't going to provide you with true diversification in case huge companies fall out of favor.

Instead, most investors gravitate toward S&P 500 index funds, which include 500 stocks ranging from the global giants to somewhat smaller or more specialized companies. Some of the lowest-priced mutual funds in the market are S&P 500 index funds.

If you'd like even better diversification, you can buy into index funds that invest in broader slices of the stock market, including a greater number of smaller companies in their portfolios.

Some index funds reflect the Nasdaq Composite, while others track the Russell 3000 index and still others broaden their horizons to the entire Dow Wilshire 5000 equity index, which invests in practically every major publicly traded U.S. stock.

Bonds 101
If a share of stock represents ownership in a company and its profits, a **bond** is basically a temporary loan that you make to a company, the US Treasury, or a local government entity.

Bonds are created when an organization (called the **issuer**) decides that it wants to borrow a certain sum of money from investors. As with any other loan, the issuer promises to pay the money back after a fixed period of time (a **term**) and agrees to pay the investors a fixed interest rate as well. This rate of interest, expressed as an annual percentage, is called the **coupon** rate. The total amount of debt that the issuer is taking on is then divided up into smaller chunks, each representing a fixed dollar amount of the money being borrowed (the **face value**) and sold to investors. These are the **bonds**.

At the end of the term, a bond **matures** and the issuer repays the original money borrowed. However, because you can buy or sell bonds like shares of stock, the person holding the bond at maturity may not be the original buyer. In the meantime, the issuer keeps making interest payments to the current bond owners.

How Bonds Make (and Lose) Money
Bonds are generally considered less risky than stocks for a number of reasons, but they aren't a risk-free place to invest your money. When you own an individual bond, you generally have two choices: You can buy it and hold it until it matures, or you can sell it for a profit (or a loss).

Sometimes investors decide to sell a bond before it matures. Perhaps they've found a better place to put their investment, or maybe they simply want (or need) to get their money. In this case, they may have to take a loss if they can't find a buyer willing to pay face value to buy the bond.

Of course, this process also works in reverse. If enough people want to buy your bond—because its coupon rate is higher than prevailing rates on similar types of bonds—you can sell it for more than its face value and collect a profit. This sort of active trading approach to bonds can be risky, however, and is best left to the experts.

If you follow the news from the bond market, you'll probably hear a lot of talk about how the "yields" on various types of bonds are changing from day to day. The **current yield** is simply a way to express as a percentage the interest rate a bond would actually pay if you bought it at the current market price, as opposed to the coupon rate it offered people who bought it at face value when it was first issued.

As an example, take a $1,000 bond with a coupon rate of five percent. No matter what price it trades for, it will still pay five percent of its original value, or $50 in interest a year. If, for any reason, demand for that bond increases to the point where people are paying $1,100 for it, those people would receive a current yield of that $50 interest payment divided by the current market price ($1,100), or about 4.5 percent.

The Risks of Bonds
One of the main risks of a bond is the possibility that financial trouble could make the bond's issuer unable to pay the interest or even give you back your principal as originally agreed. The issuer may even declare bankruptcy.

If this happens, the issuer **defaults** on the debt it owes you, which can make it difficult or impossible to get all of your money back. Different issuers carry different risks. The highest-quality bond issuer is the U.S. government. A superior credit rating makes Treasury bonds the safest investment in the world when it comes to default risk. Corporations, in contrast to government issuers, must depend on their revenues to repay their debt, which means that strong and large corporations will generally be considered better bond credit risks than smaller, less profitable companies. Some low-quality issuers can only offer what are called **high-yield** or **junk bonds**, which can provide high rates of interest, but also carry the risk of paying nothing at all if the issuer defaults.

Bond investors are also affected by **inflation.**

The problem here is that the interest rate bonds pay is locked in when you buy them, so if everyday prices go up too fast before the bond matures, the money you get back won't go as far as it did when you bought the bond in the first place.

Say you buy a $1,000 bond with a term of one year and a five percent coupon rate. When the bond matures, you'll have earned $50 in interest. Unfortunately, if the price of everything climbs three percent during those 12 months, your $50 only has the buying power of $48.50 in next year's dollars (this "after-inflation" value of an investment is called its **real return**). Furthermore, when you get your $1,000 back, its buying power will have shrunk also. You haven't technically lost principal, but you haven't done quite as well as it might look on paper. And if you depend on income from your bonds to pay your living expenses, you could have to cut back if faced with rising inflation.

Inflation forecasts are always changing as the market receives new information about the way prices are going. The quality of a bond can also change if something happens to make the issuer more or less able to pay its debts. New bonds are always being issued at whatever interest rate people are willing to accept in return for the loan of their money, and old bonds are always changing hands as investors look for a better deal.

How Can You Invest in Bonds Wisely?
It's generally considered a good idea to invest at least some of your retirement money in bonds. After all, bonds can provide steady income while helping to protect your principal from potential losses. However, the range of options available can be confusing.

Savings Bonds: Super-Safe Alternatives
If you want to get into bonds for a relatively small amount of money, the government still sells traditional U.S. savings bonds (now called **EE Bonds**). Savings bonds are extremely safe, but the trade-off is that they pay a fairly low interest rate, currently 3.6 percent. The minimum you need to invest in EE Bonds is $25. They're available in increments of $25 from banks, or in any amount of $25 or more (up to the annual purchase limit set by the Treasury) from www.TreasuryDirect.gov. All EE Bonds will pay monthly interest for up to 30 years, but unlike Treasury bonds, you won't be getting a check every six months—you need to cash them in (also called **redeeming** them) to get the money. You can redeem these bonds at any time after one year, but beware: If you cash in a savings bond before five years, you'll have to pay a penalty of three months' worth of interest.

Another type of savings bond that anyone can buy is Series I savings bonds—**I Bonds**, which are like traditional savings bonds with an extra shield against inflation. In late 2006, I Bonds paid 1.4 percent in interest **above inflation**, which the government re-measures every six months before announcing the new rate. If the official rate of inflation comes in at 3.1 percent (for example), new I Bonds would yield that amount plus 1.4 percent, or 4.5 percent.

Unlike EE Bonds, I Bonds are sold at face value and accumulate interest over time. You can start buying I Bonds with as little as a $50 initial investment from a bank or as little as $25 through the TreasuryDirect program. They can be cashed in any time after a year, up to 30 years after you buy them. As with EE Bonds, there's a three-month interest penalty if you cash them in before five years.

Savings bonds are non-marketable, meaning that they cannot be sold in the secondary bond market. They can only be redeemed for their current value from the Treasury or a Treasury agent (which includes most financial institutions).

Buying Individual Bonds
If you have more money to invest and can stomach a little more risk in order to get a higher return, there are a few things you need to consider. The government sells marketable securities, known as **Treasury** bills, notes, bonds, and TIPS (Treasury Inflation-Protected Securities), with maturities ranging from one month to 30 years. Treasury securities are considered among the safest in the world in terms of default risk, but tend to pay a slightly higher coupon rate compared to savings bonds or I Bonds. You can buy these in $1,000 increments from the government's TreasuryDirect.gov Web site. You can buy them from a broker as well (see below), but it's cheaper to get them direct from the source.

To tempt investors away from the relative safety of Treasury bonds, other issuers have to offer higher coupon rates—and the riskier the issuer, the higher the rate. For example, agencies like the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac") issue bonds that aren't officially backed by the U.S. Treasury, and so carry a higher coupon rate.

State and local governments also issue bonds to fund various projects, again with a somewhat higher risk of default. Most of these bonds also carry lower coupon rates than federal government bonds, however the interest on these bonds is generally exempt from federal income taxes and (in some cases) from state and local income taxes as well, which makes them more desirable to investors in high tax brackets. Generally, these bonds are not a wise choice for lower-income investors. It is important to compare returns on an after-tax basis.

Corporations and foreign governments also issue bonds. Much like people, different companies, countries, and government issuers have different credit ratings that gauge the likelihood that they'll be able to meet their debt obligations. In general, the better the credit rating, the lower the risk of something going wrong—and usually, the lower the coupon rate will be.

You can buy corporate bonds from a broker, usually in $1,000 chunks, but it can get very expensive, especially if you're only buying a few bonds at a time. Bonds purchased through brokers often include a mark-up in price that is imbedded in the transaction cost. Every broker has different rules and charges different fees; in general, expect to pay a minimum of $20 to $50 or more, depending on how many bonds you're buying. The added cost of purchase reduces the effective yield you receive on the bond.

What Is a Bond Mutual Fund?
Since most types of corporate and government bonds (with the exception of savings bonds) carry a price tag of $1,000 or more per bond, it can be hard for the average person to put together a truly diversified bond portfolio. The sheer variety of bonds available also makes it difficult to choose which ones are best for you. Should you buy a one-year bond or a 30-year bond with your $1,000? Should you buy it from the government or a corporate issuer? And if the bond is from a corporate issuer, which one should you choose?

Many mutual funds invest in bonds. Just as bonds are less risky than stocks, bond mutual funds tend to be less risky than stock mutual funds, but pay generally lower returns. There are exceptions. Junk bond funds, for example, can be as risky as many stock funds.

It is critical to understand one thing: Unlike an individual bond that you can hold until maturity, a pool of bonds has no maturity date. With a bond fund, there's no guarantee that as of a given date, you will receive your investment back. If the fund managers make bad trades, you could end up losing a lot of money.

What Are the Different Kinds of Bond Funds?
As with stock funds, fund companies have created bond funds tailored to suit many different investment interests and tax brackets. Some concentrate on bonds issued by low-risk borrowers with rock-solid credit to provide a relatively low but steady income. Others take a chance on somewhat shakier issuers (again, junk bond funds come to mind here) and hope that the high yields will make up for any defaults. Some bond funds take a long-term approach, while others will only look at short-term debt. Most bond funds invest in government or corporate bonds; these funds are also called "taxable" bond funds. Some invest only in state and local government bonds (which, remember, are generally not a wise investment for investors in low tax brackets).

Just as it is essential to consider expenses and fees when investing in stock funds, it's just as important to do so when evaluating bond funds. The average taxable bond fund charges an expense ratio of 1.1 percent; this can be a very high cost relative to the return you receive, particularly in an environment where interest rates are low. In contrast, the best bond index funds (bond funds that attempt to invest in broad market indices representing all bonds) often charge less than 0.2 percent a year.

The Big Secret of Bond Funds: Fees Matter More
Research has proven that the skill of a bond fund manager is a less reliable predictor of future performance than one simple fact: how much his or her fund charges. This is true for many of the same reasons that we've covered with stock funds, but added factors make it even more important when we're dealing with bond funds.

All other things being equal, stick with bond funds that charge the lowest fees you can find.

How Do You Choose?
With thousands of mutual funds—investing in stocks or bonds—currently on the market, you can find yourself dragged down by the sheer number of investment choices available. Even the experts have a hard time agreeing on which funds the typical person should buy. We've already seen that in the long run, fees are the critical factor. The big question is what funds are right for you?

Diversification Is Key
It all depends on the amount of risk you're willing to live with and the amount of investment income you need to live on in retirement.

For example, if you have many years left to let your money build up before you retire, and if you're willing to take a chance, you may want to put a bigger percentage of your money in stocks or other investments that offer relatively high rewards at higher levels of risk.

On the other hand, if you expect to retire in a few years and you don't want to risk losing any savings, you'll probably want to keep a good portion of your money in safer investments like bond funds. Your money won't grow as fast as it would if you put everything into stock funds, but you don't want to risk your hard-earned nest egg when you're so close to your goal.

The other factor to consider is how much risk you can stomach. Remember, small company stocks tend to be riskier on average than blue-chip stocks.

Finding Good Advice

Many people discuss their investment choices with a financial advisor. Keep in mind that there are numerous types of advisors and many have vested interests. Stockbrokers and bank employees usually earn a commission if they sell you certain types of investment products, even if these products might not be the absolute best fit for your needs. Financial planners usually charge a fee—this is often a small percentage of your portfolio's value, much like the expense ratio that mutual funds charge.

Sometimes, however, a planner will ask you to pay a fixed sum of money for a certain service, or will charge an hourly rate. In general, advisors who work on a "fee-only" basis have fewer conflicts of interest. This doesn't mean advisors who charge commissions are bad; it's just something you should be aware of.

If you decide to go it on your own, you can narrow your choice of funds with an online "screener." This is a computer tool that researches funds based on criteria you set and produces a list based on those criteria. Many Web sites host free screening tools. For example, you could search for growth funds with no loads and an expense rate no higher than one percent. If the list is too long, add more criteria to narrow it down.

Conclusion

In the end, how well your money works for you depends on your understanding of the fundamentals. Knowing, for example, to focus on fees and avoid sales commissions will improve your returns. Understanding the risks that come with different types of investments can help you invest in a way that makes sense for your time horizon and the amount of risk you are willing to take.

No one ever said that understanding stocks, bonds and investing is easy, but it also isn't as hard as a lot of people think. Knowledge is power, and you now have the power to take control of your financial future. So—go forth and invest!

Chapter Four: Six Things You Need to Know about Social Security

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Most workers—about 96 percent of us these days—pay into the Social Security system through federal payroll or self-employment taxes. In return, we receive an income benefit when we retire. Social Security benefits rise with the cost of living, so inflation doesn't shrink their value. Once you begin receiving retirement benefits, you will get them as long as you live, even if (and here's hoping) you're still around at age 110. (Social Security is also a disability program and a family support program if the breadwinner dies or becomes disabled. But in this chapter we'll only be discussing the role it plays in providing retirement income benefits for older Americans.)

After reading this chapter, you'll know:

1. How you earn benefits
2. The types of benefits available
3. When they're available
4. How much you qualify for
5. How taxes affect your benefit
6. How to apply for your benefits

Why is it important for you to know these six things? Because Social Security is the first line of defense against poverty for millions of women. Without Social Security, more than half of the older women alive today would be poor. These women are our grandmothers and mothers, our aunts, and our neighbors. And eventually, we could be those women. Consider knowing these six things about Social Security as *your* line of defense against poverty in retirement.

#1: How You Earn Benefits

You are eligible for a Social Security retirement benefit once you have earned 40 credits, which for most people is after they have worked and contributed to the system for 10 years. Ultimately, your benefit is based on your earnings over 40 work years. For each year you *don't* work in that 40-year period, a zero is entered into the calculation. The lowest five years of your earnings are dropped, and retirement benefit amounts are based on your income averaged over 35 years.

Since Social Security first arrived on the scene (more than 70 years ago) millions of women have not qualified for their own benefit as retired workers because they didn't work enough years. For women who have qualified, their benefits have been low due to the number of years they spent out of the workforce (for example, raising a family or taking care of parents or in-laws) and because women generally earn lower wages. In these cases, Social Security has provided a "spousal benefit" to married and certain divorced women based on their husbands' work histories. The next section covers spousal benefits in detail.

#2: The Types of Retirement Benefits Available
A woman is generally eligible for one of three types of benefits: her own *retired worker benefit* based on her work history; a *spousal benefit* based on her husband's (or former husband's) benefit; or a *survivor benefit*.

Retired Worker Benefits
In theory, Social Security is set up to pay the same retired worker benefits to women and men with *exactly the same work histories and earnings*. But the reality is that women don't typically have the same work histories and earnings as men, so their retired worker benefits are usually lower.

Women have fewer work years that count toward Social Security benefits because they tend to move in and out of the workforce due to family caregiving responsibilities. That said, many women are eligible for a retired worker benefit based on their own work histories. Back in the 1940s, women made up only 12 percent of Social Security beneficiaries receiving a retired worker benefit. Today, 49 percent of retired worker beneficiaries are women—underlining the remarkable growth of women in the labor force over the decades. However, women often work fewer than the 35 years the full benefit is based on. As noted before, a zero is entered into the benefit calculation for each year under 35, which reduces the benefit amount. Women retiring today average *13 years of zeroes*. All of this adds up to a major gender gap in retirement benefits. The average benefit for retired women workers in 2005 was $867 a month, compared to the average retired worker benefit for men of $1,130. This is a difference of $263 a month.

Spousal Benefits
If a married or divorced woman earns a benefit that is less than 50 percent of the amount her spousal benefit would be, or if she has no benefit from her own work years, she is eligible for a spousal benefit. This benefit is generally equal to half of her husband's (or former husband's) worker benefit. Until recently, the spousal benefit was the most common type of benefit received by older women.

A divorced woman is eligible for spousal benefits only if her marriage lasted at least 10 years, she remains unmarried, and is at least age 62. This benefit has no effect on the benefits of a divorced woman's former husband or his current spouse if he remarries.

If you have earned benefits through your own work history as well as through spousal eligibility, you are considered to be "dually entitled." But this doesn't mean you get both benefits added together. If you qualify for more than one benefit, you will receive the benefit amount that is higher.

Survivors Benefits
If your spouse dies and he worked long enough to earn a Social Security retirement benefit, then you and your young children may be eligible for "survivors" benefits. If you don't have children under age 16, you can collect:

- A survivors benefit at your full retirement age (your husband's full retirement benefit);
- A reduced benefit beginning at age 60; or
- A benefit beginning at age 50 if you are disabled.

If you are divorced and your former husband worked long enough to earn a Social Security retirement benefit, then you may be eligible for a survivor's benefit if your marriage lasted at least 10 years and you are at least age 60 (50 if you are disabled).

If you have been receiving benefits as a survivor and reach retirement age, you can switch to your own retired worker benefit if it is larger. In many cases, you can begin receiving retirement benefits based on your own work history at age 62 and then switch to the higher spousal benefit when you reach full retirement age.

Many women face a harsh reality during their retirement years when their spouses die. Until then, a woman receives half of her husband's retirement benefit as a spousal benefit, and her husband collects his own retirement benefit. When the husband dies, the wife begins receiving her husband's benefit, but the spousal benefit goes away. It's important to recognize this and plan ahead by saving more or purchasing an annuity to help lessen the financial impact of this drop in monthly income.

#3: When You Can Get Benefits

You can start receiving your own full retired worker benefit beginning somewhere between the ages of 65 and 67, depending on when you were born.

Year of birth	Full retirement age	Percentage reduction in benefits for those retiring at 62	Yearly percentage increase in benefits for those working beyond full retirement age
1937 or earlier	65	20.00%	6.5%
1938	65 and 2 months	20.83	6.5
1939	65 and 4 months	21.67	7.0
1940	65 and 6 months	22.50	7.0
1941	65 and 8 months	23.33	7.5
1942	65 and 10 months	24.17	7.5
1943 to 1954	66	25.00	8.0
1955	66 and 2 months	25.84	8.0
1956	66 and 4 months	26.66	8.0
1957	66 and 6 months	27.50	8.0
1958	66 and 8 months	28.33	8.0
1959	66 and 10 months	29.17	8.0
1960 and later	67	30.00	8.0

Source: Social Security Administration

Here's a breakdown of when you can begin receiving Social Security benefits based on the type of benefit you are eligible for:

Type of Benefit	When You Are Eligible for Payments
Your own retired worker benefit	• Between ages 65 and 67 depending on the year you were born. • Reduced benefits can start at 62.
Spousal benefit	• Reduced benefits can start at 62. • The same rules apply if you are divorced, as long as your marriage lasted at least 10 years.
Survivors benefit	• Between ages 65 and 67 depending on the year you were born. • Reduced benefit if you are age 60. • Reduced benefit if you are age 50 and disabled. • Immediately following your husband's death if you have children under age 16. • The same rules apply if you are divorced, as long as your marriage lasted at least 10 years.

Friends or even financial professionals may advise you to start taking benefits as early as you can, figuring the more years you receive a benefit, the more money you get from the system over time. The catch is that early retirees receive a reduced monthly payment. Take a look at this example:

Jennifer was born in 1950, and she currently earns $40,000 a year. Using a "quick calculator" on the Social Security Administration Web site (www.ssa.gov), she received the following estimate of her monthly benefit based on when she retires:

Early retirement (age 62)	$1,080.00
Full retirement age (age 66)	$1,681.00
Delayed retirement (age 70)	$2,617.00

Some people decide to continue working full-time beyond their full retirement age and delay receiving Social Security. If you decide to do this, you can increase your benefit amount two ways:

- Your benefit is increased by a certain percentage for each month that you do not take benefits from the time you reach full retirement age until either you start taking benefits or you reach age 70. This increase is called a delayed retirement credit (DRC).
- Each additional year you work adds another year of credits. Higher lifetime earnings or additional earnings may result in higher benefits when you do retire and take benefits.

For millions of women who rely heavily on Social Security income, the monthly benefit amount can mean the difference between making ends meet and sliding into poverty. Your own personal situation should guide you in your decision on when to begin receiving benefits. Ask yourself these questions:

- Can you count on a pension, income from retirement savings, or other income during retirement?
- Are you healthy enough to continue working?
- Is the difference between the benefit amounts at different ages significant given your situation?

For most people in good health, it's better to wait at least until full retirement age. If you're like Jennifer, you might want to consider delaying your Social Security benefits for a year or more after you reach full retirement age. Jennifer's benefit will go up by more than $900 a month if she holds off retiring until age 70.

If you decide to delay your Social Security benefit, you still have to sign up for Medicare health insurance three months before you turn 65. Call (800) 772-1213 to set up a phone appointment or to request an in-person meeting at your local Social Security office.

How Work Affects Your Benefits

If you plan on receiving your Social Security benefits beginning at age 62 and think you may continue to work while receiving them, your earnings could reduce your benefits. If you earn above a set limit, you lose one dollar in Social Security benefits for every two dollars over the limit. The limit changes with the cost of living, but in 2007 it is $12,960. Let's look at an example of how this plays out:

Lynn turned 62 in January and signed up for Social Security early retirement benefits. She began receiving $800 a month. However, Lynn kept on working, and her total income from her job will be $20,480 this year. This puts Lynn over the $12,960 earnings limit by $7,500. She loses one dollar for every two dollars over the limit, so in her case Lynn will lose $3,750 in benefits this year. This drops her monthly benefit down to $490 from $800.

In the year you reach full retirement age, your benefit will be cut by one dollar for every three dollars over the earnings limit. But in the years after that, your benefit is no longer reduced due to earnings.

If you start collecting benefits and continue to work beyond full retirement age, your benefit may be higher in the future. Additionally, if your latest years of earnings turn out to be among your highest, your benefits will be adjusted upward to reflect those higher earning years.

#4: How to Find Out What Your Benefits Will Be

Each year, the Social Security Administration sends out benefit estimate statements to workers age 25 or older. You should get it about three months before your birthday. The statement tells you what benefits you can expect to receive at retirement. It also contains your earnings record, your name, and your date of birth. If any of this information is wrong, you might not get the full benefits you have earned. Check your statement each time you receive it for inaccuracies.

If you don't want to wait for your yearly statement, you can order a free statement anytime. Go to the Social Security Administration's Web site, www.ssa.gov, or call (800) 772-1213.

In addition to providing an estimate of your full retirement benefits, the Social Security statement will also provide an estimate of the monthly benefit you would be eligible for at early retirement—age 62—and if you wait until age 70. The statement also estimates the monthly benefit you could be eligible for if you qualify for disability benefits.

If you are married, take a look at your husband's statement, too. It has important information about what survivor benefits you and your children could be eligible for.

#5: How Social Security Benefits Are Taxed
You might not realize that your Social Security benefits may be counted as taxable income in retirement. The IRS looks at your "combined income" to figure this out. "Combined income" is your adjusted gross income, plus non-taxable interest, plus one half of your Social Security benefits.

If you file federal income taxes as. . .	**And earn…**	**You may pay tax on…**
Married, filing jointly	Between $34,000 and $44,000	50% of your benefit
Married, filing jointly	Over $44,000	85% of your benefit
Individual	Between $25,000 and $34,000	50% of your benefit
Individual	Over $34,000	85% of your benefit

If you are married and file a separate return, you will probably pay taxes on your benefits.

#6: How to Apply for Social Security Benefits
When you are eligible to begin receiving Social Security benefits, you will need to apply for them. They don't start up automatically. The application process is pretty easy. You can call (800) 772-1213 or apply online at www.ssa.gov (if you aren't applying for survivors benefits). Or you can call the 800 number to set up an appointment to apply in person at your local Social Security office.

You may need several documents within reach when you apply, such as your:

- Social Security card
- Birth certificate
- Military discharge papers if you served in the military
- Proof of citizenship or legal status if you weren't born in the United States

- Most recent W-2 tax form
- Bank name and account number, so your check can be directly deposited into your account each month.

If you are applying for benefits based on your spouse's earnings, you'll need his birth certificate and Social Security number, as well as your marriage certificate.

A Woman's Social Security Checklist

- □ Review your yearly benefit estimate to find out what you're eligible for at different points in time. To request a free estimate or to apply for benefits, go to www.ssa.gov or call 1(800)772-1213.

- □ Understand that if you divorce, you will only be eligible for spousal benefits if your marriage lasted at least 10 years and you remain unmarried. Read more about Social Security and divorce online at www.ssa.gov.

- □ If you're married, review your husband's annual benefits estimate together. The longer your husband works, the higher your benefits will be.

- □ Save as much as you can, and get help making investment decisions if you need it. Social Security is not supposed to be your only source of retirement income, so don't rely on it that way. For help figuring out how much you'll need in retirement, use the free retirement planning calculator at www.wiserwomen.org.

- □ When planning for your retirement, factor in the taxes you'll have to pay on your benefit if you make above the earnings limit. You can estimate your taxes at www.ssa.gov, under Retirement Planner.

- □ If you decide to apply for benefits later than age 65, you still have to call and apply for Medicare benefits three months before your 65th birthday. Call (800) 772-1213.

- □ Pay attention to the Social Security reform debate! We owe it to each other to rally in support of this program that protects so many women from poverty as they age.

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Chapter Five: Prescription for Your Health Care Future: What You Need for a Healthy, Worry-Free Future

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An apple a day is a great idea, but eventually, we won't be able to keep the doctor away. It is a fact of life that as we age, even if we are healthy, to stay healthy we may need preventive medicine like high blood-pressure pills or screening tests such as mammograms. And as we continue to get older, we may need a hospital, nursing home or extra care so we can stay in our own homes.

While most of us are aware of the need to plan for our financial futures, it is a good bet that many of us have not even thought about our future health care needs. Planning for health care is especially important for women because women live longer than men and spend twice as many years with some kind of disability.

To help you plan for your health care future, this chapter first outlines the Medicare programs (Parts A through D) that are currently available for older women. It also provides a brief description of Medicaid, the government health care program for those with low or no income or assets. It then describes Medigap and long-term care, two additional kinds of insurance that you may want to purchase for yourself.

Remember, an apple a day may keep the doctor away for a while, but planning for your health care future today will help to ensure that you can enjoy being an older woman, worry-free, tomorrow.

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Medicare Parts A through D

Today more than 20 million older women rely on Medicare, the federal government program that provides a base of health insurance for those ages 65 and older. Understanding what each part of Medicare provides and how the parts interact will help you decide what you need to provide for yourself.

People over age 65 generally get their health care one of two ways: Original Medicare or Medicare Advantage Plans (see chart).

<table>
<tr><th colspan="3">Medicare Has Four Parts: A, B, “C,” and D</th></tr>
<tr><td colspan="2">Original Medicare Plan
Medicare provides this coverage</td><td rowspan="2">Medicare Advantage Plans
Provided through an HMO or PPO called
“Part C”</td></tr>
<tr><td>Part A
Hospital</td><td>Part B
Medical</td></tr>
<tr><td></td><td>Part B is optional</td><td>Private insurance companies approved by Medicare provide this coverage.</td></tr>
<tr><td colspan="2">Part D
Prescription Drug Coverage</td><td>Part D
Prescription Drug Coverage</td></tr>
<tr><td colspan="2">You can choose this coverage. Private companies approved by Medicare run these plans. Different plans cover different drugs.</td><td>Most Part C plans have drug coverage. If they don’t, you may be able to choose Part D coverage.

Source: CMMS Medicare and You, 2007</td></tr>
</table>

Typically, you are eligible for Medicare at age 65 if you or your spouse paid Medicare payroll taxes while in the paid labor force. If you are divorced, and were married for more than 10 years, you may qualify for Medicare benefits based on your former spouse’s work record. For more information on who qualifies, go to Frequently Asked Questions at www.ssa.gov.

Medicare Part A (Hospital Insurance)

What is it? Medicare Part A helps pay for your inpatient care in a hospital and provides limited coverage for care and rehabilitation immediately after you get out of the hospital in a skilled nursing facility and in your home. *Many people mistakenly assume that Medicare will provide for their long-term care. It will not.*

What does Part A cover? In addition to inpatient hospital stays, Part A covers skilled nursing facilities that provide skilled nursing and rehabilitation, hospice care, psychiatric inpatient care, and some home health care such as physical therapy ordered by a doctor. However, these after-hospital services have very strict qualifying rules and are time sensitive.

> **Skilled Nursing Facility:** While Medicare Part A does not cover typical nursing home care, it does cover care in a skilled nursing facility. However, coverage is limited to a maximum of 100 days per benefit period, with coinsurance payments required after day 20.
>
> **Home Health Care:** Medicare may provide “necessary and/or intermittent” skilled nursing care, home health aids, physical therapy, and occupational therapy that are ordered by a doctor and provided by a Medicare-certified home care agency. Medicare may also provide for durable medical equipment for use at home—things like a wheelchair or walker.
>
> **Hospice Care**: Medicare provides home health and other services, as well as drugs for pain relief and respite care for people with less than six months to live.
>
> **Lifetime Reserve Days:** If a person is in the hospital for more than 90 days, Medicare provides a total of 60 “reserve” days that can be used over a lifetime.

For each reserve day, Medicare pays all costs except for the coinsurance.

What is not covered by Part A? Medicare does not cover care that is or becomes primarily custodial. In other words, if you have a chronic disabling condition or disease and need assistance with eating, dressing, using the bathroom, moving from the bed to a chair, or bathing (called "activities of daily living"), Medicare benefits will not cover that assistance for an extended period of time. Simply put, Medicare does not cover long-term care in a nursing home, assisted living facility, or your own home.

What does Part A cost? There is no premium for Part A if you or your spouse worked and paid FICA taxes for 10 years or more (i.e., have 40 quarters of Social Security coverage). If you don't qualify for free coverage, you may be able to buy into the program. If your resources and income are limited, you may qualify for help from your state.

There are deductibles and coinsurance requirements for different types of covered care. For example, if you are in a skilled nursing facility, your first 20 days of each benefits period are free, but days 21-100 are $124 per day. The rules vary by number of days, benefit period, and type of care. For more information about the Medicare Part A rules and requirements, visit www.medicare.gov or call (800)-Medicare. You may also find Medicare information at www.socialsecurity.gov or by calling (800) 772-1213 or TTY (877) 486-2048.

Medicare Part B (Medical Insurance)

What is it? Medicare Part B covers medically necessary doctor's services, outpatient hospital care, and some other medical services that Part A does not cover. Part B is optional. It is financed through the monthly premiums paid by enrollees and by contributions from the federal government.

What does Part B cover? Part B covers your doctor's services or outpatient hospital care and some other services not covered by Part A, such as physical and occupational therapists, and some home health care. Note: Part B does not cover routine physical exams.

Also covered by Part B are these important services for women:

- Annual mammograms for individuals age 40 or older;
- Pap smears;
- Pneumococcal vaccines;
- Hepatitis B vaccines for high-risk individuals;
- Pelvic and breast cancer screenings every three years for women, or annually for high-risk women or women with a relevant medical history, exclusive of any Medicare deductible;
- Colorectal cancer screening;
- Bone density measurements for women at risk for osteoporosis;
- Self-management training for individuals with diabetes.

What does Part B cost? If you decide to participate in Part B, you will be required to pay a Part B premium each month**.** As of 2007, beneficiaries with higher incomes ($80,000 and over for individuals, $160,000 and over for married couples) pay a higher premium based on a sliding scale. This premium is adjusted based on the cost of living and typically increases each year.

You also have to pay a deductible amount each year before Part B starts to pay. This deductible amount increases each year by the same percentage as the premium.

There is a penalty for signing up for Medicare Part B *after* you turn 65. The cost of Part B may go up 10 percent for each 12-month period that you could have had Part B but did not sign up for it. You will have to pay this extra 10 percent for the rest of your life. Don't let the sign-up date slip by. Note: There are some exceptions if you are still working and covered by an employer health plan.

Medicare Part C (Medicare Advantage)

What is it? Medicare "Part C," also known as Medicare Advantage, offers health plan options approved by Medicare but run by private companies. If you choose Part C, *you are still enrolled in Medicare*. Under Part C, health coverage is provided through private fee-for-service arrangements, managed care plans (such as HMOs) and preferred provider organizations (PPOs).

If I enroll in Part C, do I lose Part A and Part B coverage? You can enroll in Medicare Part C *in place* of Parts A and B to receive all your hospital and medical coverage.

What is covered by Part C and what does it cost? The benefits and services you may receive and the difference in what you save or spend depends on the type of Advantage plan you purchase. Generally, the fee-for-service plans are the most flexible, but they are also the most expensive. With a PPO, while you may save on premiums, you will have to pay an additional fee if you do not use an "in-network" provider.

Is Part C the right choice for me? You should make some comparisons between what the Original Medicare (Parts A and B) and what Medicare Advantage plans provide for you before you make a decision. Find out:

- Is there an Advantage Plan available in my area?
- Would the Advantage Plan be more or less expensive in meeting my needs than Original Medicare?
- Would the Advantage Plan provide more or fewer options for the kinds of care and services that I need?

If you decide an Advantage Plan is what best meets your needs, compare plans to determine which one is right for you. Find out:

- What is the premium?
- Is there a deductible—how much?
- Are there co-payments, or coinsurance costs—how much?
- Does the plan cover the extra benefits or services you need such as prescription drugs?
- Do the health care providers you normally see participate in the plan?

Medicare Part D (Prescription Drug Coverage)

What is it? Under Part D, Medicare offers prescription drug coverage for *everyone* in Medicare. Part D plans are run by insurance companies and other companies approved by Medicare. You don't have to participate in a Part D plan, and if you do not take many expensive drugs now, you may think, "Why bother?" However, it is worth considering. Many of us, as we age, will need various drugs to stay healthy. You have until three months after you turn 65 to enroll in Part D. You may have to pay a late enrollment penalty if you wait—and you carry that extra cost for as long as you're covered under the plan. Note: If you have Medicare Parts A and B, you **do not** have prescription drug benefits. If you participate in a Medicare Advantage plan, prescription drugs may be covered and you may not need Part D coverage. Be sure to check your plan.

What does Part D cost? Most Medicare Part D plans have a monthly premium. The Part D premium is **in addition to** the Part B premium. The premium amount you pay will vary by plan provider and by how many and what drugs the plan covers. Depending on the plan, you will also have to pay part of the cost of your prescriptions. If you have limited income and resources, you may qualify for assistance or a waiver of the premiums and deductibles altogether.

What is the donut hole? Part D drug plans may have a coverage gap, often called the "donut hole." Once you and your plan have paid up to $2,400 for prescriptions, you are responsible for *all* your drug costs (including the monthly premium) until you spend $3,051.25. At that point, you will be covered again and make a small co-payment until the end of the calendar year. Note: Some Part D plans offer coverage during this gap.

How do I decide on a Part D plan? Most prescription drugs, both brand-name and generic, are covered under Medicare Part D. However, the coverage varies by plan, so you must choose carefully. When you look at plans, it helps to compare three things:

- **Cost:** What will the coverage cost you—including premiums, deductible and the payments for your drugs?
- **Coverage:** What benefits do you get? What drugs are covered? Do you need prior authorization to get a drug you need? Is the donut hole covered?
- **Convenience:** Are the pharmacies near you a part of the plan? Is there a mail-order option?

You can get current information on the Medicare drug plans by calling (800) Medicare, TTY (877) 486-2048, or by going to www.medicare.gov and selecting "Compare Medicare Prescription Drug Plans."

Medicaid

What is it? Medicaid is a jointly-funded state and federal program that provides health care and long-term care for certain categories of people with very low or no income and resources.

Who is eligible? Medicaid is available to you and your family only if you meet the very strict federal and state income and resource requirements. How much income you may have and what resources you may keep and still qualify for Medicaid varies from state to state. ("Income" includes wages and pension payments, and "resources" can include items such as insurance policies, savings, cars, and valuables that the applicant may own.)

Medicaid also pays for long-term nursing home care for very low income elderly and disabled Medicare beneficiaries. Generally, if you apply for Medicaid to cover long-term nursing home costs, you will have to prove that your financial status meets the requirements for very low income and resources set by your state.

Note: It may be that you are ineligible for Medicaid at first, but several states allow people to enter a facility and then spend down their income and assets on nursing home bills to become eligible. However, there are many rules and regulations for "spending down." You might want to consult an attorney or financial planner. In any case, be sure you understand the rules in your state.

Be assured, if you are married and only one of you needs nursing home care, the one not in the nursing home will not be required to become destitute in order to pay for the care of the other. In other words, you would not be required to "spend down" by selling your home to pay for your husband's care. On the other hand, Medicaid can require some "payback" by billing his estate after he has died.

What does Medicaid cost? Depending on your state's rules, you may be asked to pay a small co-payment for some medical services. Medicaid makes payments directly to your health care provider—it does not pay the money to you. If you think you might qualify or for more information, go to: www.cms.hhs.gov/Medicaid.

Medicare Supplemental Insurance (Medigap Insurance)

If you are in the Original Medicare Plan (Parts A and B), there are gaps in Medicare's coverage of the care and services you might need. Medigap insurance was designed to fill those gaps.

What is it? Medigap insurance helps to pay for what Medicare does not cover—things such as such as deductibles and coinsurance. Medigap policies are sold by private insurance companies. What plan you buy should depend on both what types of care you need and what you can afford. Note: Generally, when you buy a Medigap policy, you must have Medicare Part A and Part B. If you are in a Medicare Advantage Plan or other Medicare Health Plan, you may not need a Medigap policy. Be sure to review your plan coverage to see what is and is not covered.

What does it cover? Insurance companies can only offer "standardized" policies that follow state and federal rules. Currently, 12 different Medigap plans labeled "A" through "L" are available. Plan A covers only the basic (core) benefits. These basic benefits are included in all the Medicare plans (A through L). Medigap Plans B through J offer extra benefits or combinations of benefits. Plans K and L have benefits similar to plans A through J, but they offer lower monthly premiums and higher out-of-pocket costs. Are there specific kinds of care you need and use? Check to see if that service is covered in the plan you purchase. Note: *Medigap insurance does not cover long-term care services.*

What does it cost? Medigap policy premiums vary depending on the provider and the level of benefits provided. Before you purchase a policy, compare premiums—there can be a big difference in price from company to company for the same policy. Note: If you are married, you and your spouse must purchase separate Medigap policies. Your policy will not cover the health expenses of your spouse.

Long-Term Care Insurance

A woman age 65 today can expect to live another 19 years. That's the good news. The bad news is the estimate that over 50 percent of women will enter a nursing home before they die, and the current national average cost per day of a private room in a nursing home is more than $200 or almost $75,000 per year. In addition to having a financial impact, long-term care needs also have a family impact. A recent survey showed that one in four American households is providing some kind of caregiving support for a family member.

Will you have the resources to pay for long-term care if you need it? Would long-term care insurance enhance your personal health care future? What follows is some information to think about before you buy a long-term care insurance policy. And, if you decide that long-term care insurance is right for you, there is information on some features to look for in a policy.

What is meant by the term "long-term care?" Long-term care is different from health care. The general intent of health care is to return a person to good health, so its focus is on skilled or acute care. In contrast, long-term care focuses more on caring than on curing. Generally, long-term care provides either custodial or supervisory care when a person is unable to perform basic activities of daily living, such as eating, bathing, or dressing, because of a physical or cognitive impairment.

What is long-term care insurance? Long-term care insurance is designed to help cover the cost of certain long-term care expenses and services you might need that are not covered by Medicare or Medigap insurance. *Remember that Medicare does not cover long-term custodial care, and to qualify for Medicaid you must spend down most of your resources.* For further information on Medicaid and the resource limits, go to www.cms.hhs.gov/Medicaid.

The financial assistance that long-term care insurance provides can help you protect your assets—rather than spending down to become Medicaid eligible; stay in your own home with paid help—rather then going to a nursing home; choose the assisted living facility where you want to live—rather than going to a facility because it has an available Medicaid space.

There are three basic types of long-term care insurance: 1) Most policies are *indemnity* policies. They pay a pre-determined fixed dollar amount toward your costs for each day that you receive covered care services regardless of actual expenses. You might be insured for $100 per day of covered care and you would pay the rest of the daily rate. 2) Another type of long-term care insurance, *expense reimbursement*, pays a portion of costs for services up to a predetermined daily or monthly limit rather than a set dollar amount. 3) The third type, *cash*, pays a specific dollar amount each day you have the impairment regardless of the actual charges for covered services received or whether you receive care every day. There are also hybrid policies that combine various elements for consumer flexibility. In each of the versions, you are responsible for any costs above the covered or defined benefit amounts of the policy.

What does long-term care insurance cost? Be aware that long-term care insurance can be expensive. Average annual premiums vary widely based on your age, the length of the policy, and what benefit options you choose. The younger you are when you apply to purchase your policy, the lower your monthly premiums will be, but of course, you will be paying those premiums for a longer period of time. Your health is also an important factor in the premium costs. Unlike the Medicare and Medicaid programs, you must apply for long-term care insurance coverage and be accepted by the insurance company. Note: You can deduct the premiums for a qualified long-term care plan from your federal taxes if your total medical expenses, including the premiums, exceed 7.5 percent of your adjusted gross income. A number of states also offer tax credits or deductibility incentives for long-term care insurance. Additionally, if you own your own business, this insurance is deductible for you as a business owner. Be sure to talk with your accountant or tax advisor about this deduction.

Should I purchase long-term care insurance? Long-term care is an investment—you purchase it now with the intent of using it later. And like any investment, it should be carefully considered. There are numerous factors to consider when you think about whether or not to purchase long-term care insurance—among them are your age, your health and your family's health history, and, very important, your finances—how would the premiums fit into your monthly or yearly budget. As a younger, healthier person, your premiums probably will be lower, but remember, you will be paying them for a longer time. As an older person, your monthly premiums will be higher, but you will pay them for a shorter time. On the other hand, if you wait too long, you might not qualify for a policy because you have a pre-existing condition or overall bad health.

What should I ask myself before I purchase a long-term care insurance policy?

- Is my family able to provide some or all of the care I might need?
- Are there health conditions or health trends in my family that are associated with chronic illnesses that could lead to the need for long-term care? For example, stroke, osteoarthritis or diabetes.
- What do various types of long-term care cost in my area—per day and per year?
- What can I afford to pay for long-term care insurance?

Long-term care policies vary widely in cost, benefit amounts, and coverage. While many of us do not have the time or the expertise to make an informed decision about whether or what to buy, there are people who can help. If you decide to work with an advisor, *be sure to go to someone who has no financial stake in your purchase of an insurance policy*.

What should I ask before I purchase a long-term care insurance policy?
There are numerous long-term care insurance policies being sold today. Here are some questions to ask as you compare the various policies.

- Will the insurance premiums I pay now remain level or increase as I get older?
- Is the benefit amount inflation-protected? How much will this protection increase the monthly premium?
- What is the daily benefit amount or percent of cost that the policy will pay for care in each venue covered by the policy?
- Will the policy cover assistance in my home, an adult daycare facility, an assisted living facility, or a hospice, as well as skilled, intermediate, or custodial care in a nursing home?
- Will the policy allow a family member or friend to provide care? This is called "informal caregiving," care provided by someone who is not a licensed care provider.
- What is the length and definition of the waiting period before any benefit will be paid and is there a deductible?

- How long over the life of the policy will benefits be paid?
- Are premiums waived when I am receiving care?
- What payment options are available? What would be best for me?

For more information about long-term care insurance, get a copy of *A Shopper's Guide to Long-Term Care Insurance* from either your state insurance department (or call (800) Medicare to get their number) or the National Association of Insurance Commissioners, 2302 McGee Street, Suite 800, Kansas City, MO, 64108. You may also call your State Health Insurance Assistance program.

Conclusions

Just as financial planning can help insure that our retirement income goals are met, planning can help insure that our health and long-term care needs are met as well. Understanding what the four parts of Medicare provide and what is available for those with low and no income or assets through Medicaid can help us plan what we need to do now to provide for our futures and enjoy being older women. Keep eating that apple a day, but take the time to plan for your health and long-term care future.

WISER FACT SHEET

10 Questions to Ask Before You Buy Long-Term Care Insurance

1. **Does the policy include protection against inflation?**
   The benefits paid by the policy should increase with the rate of inflation; otherwise, your policy may be worth very little by the time you want to use it.

2. **Does the policy guarantee that premiums remain level?**
   If you bought your policy at age 60, the insurance company will always charge you the same rate as other 60-year old policyholders. Once you buy the policy, the company can't raise your rates because of your age (but it can raise rates for an entire class of insured individuals). Some policies guarantee that the rate will not change for a specific period of time.

3. **Does the policy cover home health care benefits and all levels of nursing home care including skilled, intermediate and custodial care?**
   Classic policies cover nursing home care and can have a rider to cover home health care. Integrated policies provide a pool of funds that can be used for a range of long-term care services.

4. **Does it provide comprehensive benefits for both home care and nursing home care?**
   Make sure that the policy covers less severe impairments and provides services that help you remain in your home.

5. **Is the policy renewal guaranteed?**
   Policies that qualify for federal tax deductions must have the renewal guaranteed, meaning that the policy cannot be canceled if you pay the premiums on time. Other policies are conditionally guaranteed and the company could cancel coverage for a group but not for you as an individual member of the group.

6. **Is the maximum benefit period one year or more?**
   The benefit period can vary from one year to a lifetime. You may also be able to choose to have coverage for a maximum number of days or maximum amount of benefits paid.

7. **Is the deductible affordable and does the policy have a waiting period of 100 days or less?**
   The deductible period is also called the waiting or elimination period. Most policies require that you pay for needed care from your own money for a certain number of days before the policy starts to pay for the services.

8. **Once approved for coverage, will the policy cover pre-existing conditions or limit coverage for certain conditions?**
   Some policies exclude preexisting conditions, or certain diseases like Alzheimer's disease. Since Alzheimer's is a major reason for nursing home admissions, make sure you know if your policy will cover you or your spouse if you develop Alzheimer's disease.

9. Will you be able to keep up on the premium payments?

Important provisions, such as inflation protection and non-forfeiture, increase the cost of the benefit but also increase the value of the policy.

10. Have you learned as much as you can about the insurance company?

Try to choose a company that will be financially sound in the future, has an excellent reputation, and has a strong customer service record. Ratings by independent companies such as Standard and Poor's, Moody's or A.M. Best are available at public libraries.

WISER

Chapter Six: Where Will Your Retirement Money Come From?

By members of the Consumer Education Committee of the Actuarial Foundation, Morton M. Dickstein, FCA, MAAA; Stanley Freilich, FCA, FSA, MAAA; Anna Rappaport, FSA, MAAA; Vinaya K. Sharma, FSA, MAAA; and C. Eugene Steuerle, Ph.D. www.actuarialfoundation.org and www.annarappaport.com.

Your retirement may be a lot different than it was for earlier generations of women. For one thing, you're likely to live longer, given increases in life expectancies. Half of all women who are now 65 will live beyond age 85. A longer life often means a longer retirement—and a more costly one.

Some fortunate women who are now retired spent their careers working for employers who offered a traditional pension plan—monthly income for life in retirement—or were married to men who were covered by this type of plan.

You are more likely to participate in a retirement savings plan, such as a 401(k). With savings plans, you must decide how much to save and how to invest the money. Your decisions have a direct effect on how financially secure you will be in retirement. It's a big responsibility. Typically, your 401(k) retirement money will come to you as one lump sum when you retire, rather than as a steady stream of monthly payments for life the way a traditional pension would. You are responsible for managing the lump sum. Like it or not, your retirement income security is up to you.

Unfortunately, many workers do not understand the wide range of financial choices now available to them. If you're like most people, you may not know enough about how to get ready for retirement. It is important that you have a good understanding of how to plan, budget, save, and invest for retirement. It is also a good idea to seek information and guidance from your employer and/or outside experts about when you could afford to retire, how much income you will have, what your expected monthly Social Security benefit will be, where the money will come from, and how to make it last.

Many financial planning professionals say a good target is to try to have enough money to replace 80 percent of your pre-retirement income. Because many of us have not saved enough for retirement, we may have to retire at a later age, accept a more modest lifestyle, or both.

The first step to creating a retirement plan that will work for you is understanding what you'll have from pension benefits, personal savings and other assets, and Social Security. This chapter will help you figure this out.

Evaluate Your Assets and Retirement Resources

As you plan for your retirement, try to take all of your potential retirement resources into account. These could include:

- Your Social Security benefits, as well as those of your spouse.
- Your Medicare benefits, as well as those of your spouse.
- Personal savings through a 401(k), Individual Retirement Account (IRA), or similar plan.
- Your pension benefits as well as those of your spouse and other family members.

- Income that could come from part-time work or starting a new business from home.
- Money from selling your home and moving to a smaller one or to a less expensive area.
- Taking out a reverse mortgage on your home.
- Money saved by cutting down on your expenses.
- Any continued medical benefits available through your or your spouse's employer.
- Income from selling certain personal property that you will no longer need in retirement, such as second homes, extra family cars, jewelry, clothing, tools used for work, etc.
- Any long-term care insurance that you currently own.
- Life insurance policies that could be converted to cash or monthly income, or used to provide cash for your survivor.

Examine Your Financial Issues

Once you have a handle on what resources will be available to you in retirement, think through what financial needs you might have. Realize that the longer you work, the more money you can accumulate and the less money you will need. Your key financial issues include:

- Your needs at the time of retirement.
- The impact of retirement timing on Social Security benefits for you and your spouse.
- Your willingness to keep some money in the stock market.
- The cost of health insurance to supplement Medicare.
- Future inflation that will make everything cost more over time, especially medical care.
- For couples, the needs of the survivor after one partner dies.
- Potential expenses if one or both spouses need special care or become frail.
- Potential requests for help from parents, children and other family members.
- The need for a financial cushion to absorb unexpected costs, such as rising property taxes.
- Your retirement dreams, including special travel wishes and the desire to add a seasonal or vacation home.

Employer-Sponsored Pension and Savings Plans

Let's take a closer look at employment-based pension and retirement savings plans, and cover ways you can make the most of them. For those companies sponsoring pension plans, there are two basic types:

A **defined benefit plan** is a traditional pension plan with benefits based on the individual's years of work for the company and other factors, such as level of pay. The defined benefit plan tells you exactly how much money you will receive, such as a payment of $500 a month. The benefits are typically paid out over your lifetime, or over the lifetime of you and your beneficiary.

If a private sector plan is discontinued or is unable to pay benefits, a federal corporation known as The Pension Benefit Guaranty Corporation (PBGC) takes over the plan and makes the benefit payments (up to a certain limit).

A **defined contribution plan** is a retirement savings plan that pays benefits equal to the amounts contributed to employees' individual accounts plus investment gains or losses.

Workers, employers or both can contribute to defined contribution plans, which include the popular 401(k). The plans typically give you a tax break on the money you contribute. For example, if your annual earnings are $30,000, and you contribute $3,000 to a traditional 401(k) plan, your income tax will be based on annual earnings of $27,000. Your contributions, your employer's contributions, and investment returns aren't taxed until you withdraw your money. (You may also be eligible for a plan that gives the tax break when you take the money out in retirement, rather than as you're putting the money in; these are known as Roth plans.)

The purpose of **all employment-based plans** is to help provide security in retirement. Be aware that most plans include a vesting provision. This means you have to stay with a company for a certain amount of time to qualify for benefits from the plan. However, once benefits are vested, you get a benefit even if you no longer work for that employer. For example, in a defined contribution plan with a five-year vesting requirement, you have to work the full five years in order to earn the employer match. In a defined benefit plan with five-year vesting, you have to work the full five years to earn any benefit at all. It's important to learn the rules.

Information about your plan is contained in a **Summary Plan Description, (SPD).** The SPD will outline the conditions for participation in the plan.

The SPD for a *defined benefit* plan will provide vesting information, the formula for how benefits are calculated and other information such as early retirement benefits, death benefits, or disability benefits. A *defined contribution* plan SPD will give you such useful information as your investment options, the contribution limits, the employer match amount, the vesting period, and either how the benefits will be paid, or what payout options are available.

Guidelines for Making Good Use of Employer Plans

For many women, pensions are just not available. The realities of family life are such that women spend on average only 27 years in the workforce, compared to 40 years for men. Our current retirement system wasn't designed with working women in mind: Their part-time and intermittent employment due to family caregiving responsibilities can mean that they aren't eligible or can't vest in the plan. If you or your spouse have a choice about employment, and other things are equal, look for an organization with good retirement benefits. Most of all protect your future security by making the best use of what is available to you.

Here are some things you can do to make the best use of the benefits you do have:

- Check on whether your employer is doing well to increase the chances of a good outlook for continued employment and continued benefits.
- Save at least the amount matched by your employer in 401(k) plans and other defined contribution plans.
- When investing funds, don't put all your eggs in one basket—diversify.
- Don't use retirement money for non-retirement purposes.
- If you are thinking about switching jobs, remember to look at the vesting schedule where you are and stay at least that long.
- If you are self-employed, don't forget to save—you need retirement income too.
- Remember that plan funds are an asset at the time of a divorce, and in the long run, might be the most important asset you have.
- Don't retire too early, and remember that your money needs to last a lifetime.

Three more tips:

- File and save all your plan information, including benefit statements and Summary Plan Descriptions.
- Keep track of any pensions or 401(k) account balances that you earned with prior employers, either by saving your latest statements or by rolling over the funds into an IRA that you control. If you lose contact with a former employer whose defined benefit pension plan covers you, the PBGC may be helpful. Their booklet "Finding A Lost Pension" is available at http://www.pbgc.gov/docs/Finding_A_Lost_Pension.pdf.
- When leaving a job before retirement, be careful about cashing out any lump sum benefit. You can avoid IRS penalties and preserve the money for retirement by taking a direct rollover to an IRA or to another employer's plan.

Examples of How Retirement Plans Can Work

In order to understand these plans and to help you see how they may fit into your retirement planning needs, here are three examples of how these plans worked for some people we know.

Rose and Dick

Rose and Dick lived a modest lifestyle in a rented apartment during their lives. Rose did not enter the workforce until she was 51. Even though she worked for low wages in a state agency, she was covered by a pension plan, an employer-paid retirement health care program and Medicare at retirement.

Dick ran a very small business. He did not have a formal pension plan, but managed to build a nest egg by investing in the stock market. He did not have health insurance when he retired, but was covered by Social Security and Medicare.

They both retired when Rose was age 66. Their retirement income was not much, but with Rose's pension, coupled with the income from Dick's investments and their Social Security benefits, they managed to live somewhat comfortably.

Rose was not always in good health during her retirement. Nearly all of her health care costs were covered by Medicare or her employer-provided health care program.

Susan

Susan, age 42 and unmarried, has worked in retail since she graduated from college many years ago. Her current employer of six years, a good-sized department store chain, provides her with a 401(k) plan. Her previous employers did not. However, during the years she was not covered by a 401(k) plan, she set aside money in an IRA account, and she continues her retirement savings by setting aside as much as she can in her 401(k) plan.

As a participant in her employer's 401(k) plan, she contributes enough to earn the employer's match (dollar for dollar up to six percent of her pay) and she tries to save beyond that amount.

She also chooses the way her funds are invested within the plan. Few employees focus on how to invest their money to meet a certain retirement income goal. Susan is making the best of her situation, and will be far better off than her colleagues who aren't saving anything.

Jessica
Jessica, age 38, is just divorced after 15 years of marriage. During her marriage, Jessica worked on a part-time basis to supplement the family income. Under the terms of the divorce, Jessica will get half of the value of the pension plan assets that were earned during the 15 years of the marriage. She was able to get this benefit because the judge in the divorce proceeding issued a Qualified Domestic Relations Order (QDRO), a very important, and sometimes overlooked, piece of paperwork. The assets accumulated in pension plans during a marriage can be divided through negotiation as part of the divorce process. Determining the value of assets earned during the marriage can be complicated, and you may need to get professional help to figure it out. It is important for the attorneys to have access to the retirement plan provisions as soon as possible so that they can determine just what the plan will permit and finalize the agreement in a QDRO.

Four Ways to Save for Retirement

Here's a comparison of four ways to save for retirement. The examples show that saving in a tax-advantaged IRA or 401(k) plan, like Mary, Carol and Joan, will increase the amount of spendable money you will have in retirement.

	Personal Investments	**Roth IRA**	**Traditional IRA**	**401(k) with 50% Employer Match**
Examples Each of the four women is age 35. The calculations are based on their contributing $3,000 of Gross Annual Pay. [1]	**Anne** saves $3,000, which after tax is $2,400. By age 65, Anne's account has grown to $186,805. Her spendable money is **$186,805**.	**Mary** saves $3,000, which after tax is $2,400. By age 65, Mary's account has grown to $242,575. Her spendable money is **$242,575**.	**Carol** saves $3,000 a year and pays no taxes on this amount. By age 65, Carol's account has grown to $303,219. <u>After taxes</u>, her spendable money is **$242,575**.	**Joan** saves $3,000 a year and pays no taxes on it, and her employer makes a matching contribution of $1,500. By age 65, Joan's account has grown to $454,829. <u>After taxes</u>, her spendable money is **$363,863**.
Advantages	No limit on how much you can put in or take out in any year. No tax on money you take out.	Annual investment growth is not taxed, so fund grows more rapidly. No tax on money you take out. After age 70 ½, you can leave all money in and contribute more.	Annual investment growth is not taxed, so fund grows more rapidly. Immediate tax deduction.	Annual investment growth is not taxed, so fund grows more rapidly. "Free money" from employer match. Immediate tax deduction.
Disadvantages	No tax advantages.	No front-end tax deduction. Penalties for taking money out before age 59 ½ or during the first 5 years, with certain exceptions.	Money you take out is fully taxable. Penalties for taking money out before age 59 ½, or for not taking some out after age 70 ½, with certain exceptions.	Money you take out is fully taxable. Penalties for taking money out before age 59 ½, or for not taking some out after age 70 ½, with certain exceptions.

Technical Details			
	Personal Investments	**Roth IRA**	**Traditional IRA and 401(k) with 50% Employer Match**
Income Tax Treatment	You contribute after-tax money. No limit on how much you can save. You pay income tax annually on investment earnings. No tax on money you take out.	You contribute after-tax money. IRS rules limit annual contributions. No tax on investment earnings. No tax on money you take out.	Contributions are deductible from taxable income. IRS rules limit annual contributions. No tax on investment earnings while in the plan. Money you take out is fully taxable.
Penalties for Early or Late Withdrawal	None.	10% penalty for early withdrawal of earnings during the Roth IRA's first 5 years or before age 59 ½ with certain exceptions. No limit on withdrawals after the IRA's first 5 years if you are over age 59 ½.	10% penalty for early withdrawal before age 59 ½ with certain exceptions. 50% penalty for not taking minimum required withdrawals each year at age 70 ½ and over (this rule does not apply to a 401(k) plan where the employee is still working after age 70 ½).
The four examples assume $3,000 a year of annual gross savings, and payment of tax either before or after contributing, depending on the tax rules. Each example assumes the person is age 35, will retire in 30 years, and is in the 20% tax bracket (federal + state) before and after retiring. Their investments earn 7% a year before taxes.			

Social Security

When you create your retirement plan, you should include your Social Security benefits. (For most women, Social Security will be their primary source of retirement income.) The chapter in this book, "Six Things You Need To Know About Social Security," will provide you with the information you need to get started.

Conclusion

The more you know about what you have, what you are entitled to, and what you want out of retirement, the better off you are. Every woman can take charge of her financial future. The best place to start is by knowing your financial facts so you can make your pension, your Social Security benefits and your savings plan work for you.

Chapter Seven: When the Unthinkable Happens: How to Make Financial Plans for Unexpected Events

By Jeffrey R. Lewis and Maria Cordone
jlewis@heinzoffice.org **and** mcordone@iamaw.org.

We've all heard stories about the elderly widow, alone and confused about taking care of her finances, losing all her savings to the "nice young man" who offered to help her and turned out to be a scam artist. Or the middle-aged woman who divorced her husband when she discovered he had huge gambling debts. While the divorce got her out of a bad situation, it left her with nothing, having to start over at age 45. Or the 30-year-old woman who lost her home and all her possessions because her spouse was severely injured in an automobile accident, and neither she nor he had insurance to cover the cost of his hospital care. Or the 55-year-old woman who had to take minimum wage, unskilled work to pay the bills because she lost her factory job due to downsizing.

The events that create financial disasters for women are generally not the things we want to think about—the death of a spouse, a divorce, a serious illness, a disabling accident, or loss of a job. While it is easier to assume these things only happen to "other people" and could certainly never happen to us, life-altering events can, and do, happen anywhere, anytime. However, just because these events are surprising or upsetting doesn't mean they have to be financially crippling.

Good planning can help to prevent a personal tragedy from becoming a financial disaster. That's what this chapter is about—preventing a financial disaster by providing you with some basic information to help you make informed choices as you prepare to protect your future. First, there are six steps you can take to become more financially independent. Then, we discuss some potentially disastrous events—divorce, widowhood, unemployment, and medical emergencies—and "must dos" that can help you to be prepared should an unthinkable event occur in your life.

Your First Steps

One of the first steps you can take to avoid financial disaster is to establish your financial independence. The idea is not to create a split between you and your spouse or partner, but rather for you to have enough financial self-sufficiency that you can act on your own in an emergency. The following six steps will help you to accomplish that.

1. **Maintain files of basic financial information**. Be sure you have copies of all current assets; bank account numbers; safe deposit information; insurance beneficiary information; IRAs and other retirement account records; tax returns going back seven years; mutual fund statements and copies of stocks and bonds; copies of health, homeowners, auto insurance policies; the lease or mortgage information for your home; copies of a prenuptial agreement; wills, trusts and powers of attorney; and copies of birth and marriage certificates. It is also a good idea to have receipts of major appliances in a file as well.

2. **Have your name on the checking account**. If your husband dies suddenly, it could be very difficult to resume payment schedules if the checking account and home purchases are listed only in his name. If you are married, you should also open checking and

savings accounts in your own name just in case a will is contested or some other complication arises.

3. **Establish and maintain good credit**. Good credit is essential to any sort of financial independence. Get credit in your own name through a personal credit card. Without good credit it will be nearly impossible for you to borrow money to purchase a home or car, or even get a credit card, without assistance.

   Good credit means more than just paying your bills on time. While that is a critical part of maintaining a good credit rating, you must also check your credit report and credit score every year to make sure that there are no inaccuracies. Credit Reporting Agencies collect information about you and your credit history from public records, your creditors and other reliable sources. These agencies make your credit history available to your current and prospective creditors and employers as allowed by law. Credit scores range from 300 to 850. You'll need at least a 620 to be considered for any type of mortgage, but in order to get the best rates and most favorable terms, you'll need a score of over 700.

   A recent study suggests that over 79 percent of all credit reports have at least one error. The same study showed that over 50 percent have an inaccuracy that drops a credit score by at least 50 points. Three major national agencies keep track of credit, and they often don't coordinate. Yet, no bank or mortgage company will loan money without checking at least one of them.

   The credit reporting agencies are:

   Equifax
   PO Box 105873
   Atlanta, GA 30348
   (800) 685-5000

   Experian
   PO Box 2002
   Allen, TX 75013
   Consumer Credit Questions
   (888) EXPERIAN (888-397-3742)

   TransUnion
   Post Office Box 2000
   Chester, PA 19022
   (800) 888-4213

   Even if you maintain a joint checking account, never let the responsibility of making payments on time fall entirely on your spouse. A spouse's history of late payments or non-payments can destroy his wife's credit rating. It also takes seven years for poor credit information to fall off an account. By all means, maintain joint credit accounts, but make sure that they're paid on time—and if they're not, get your name off the account.

Visit the WISER (Women's Institute for a Secure Retirement) Web site (www.wiserwomen.org) for more information, including steps you can take to establish and maintain good credit.

4. **Assess your insurance needs and buy enough to protect yourself.** There are four kinds of insurance every family should have: life insurance, homeowner's insurance, health insurance and car insurance.

   Life Insurance: When it comes to life insurance, it's essential to buy enough to cover all of your debts, like mortgages and student loans, plus 20 percent if you die. The extra 20 percent is a precautionary measure to protect your spouse in case there isn't an opportunity for employment, there are no other benefits, or any money on the way gets trapped in red tape. A few dollars more in a monthly premium will buy a lot of breathing room later.

   Life insurance may seem like one of those things you are able to do without, but it can protect you from total financial ruin if the primary earner in the family is injured or dies. In addition, if you compare the premium to the benefit, it can be fairly cost-effective. If you're on a tight budget, avoid whole life policies, which are essentially investment vehicles, and get term life, which will protect you for a specific number of years while you're financially more vulnerable, such as when your children are young. It won't pay out a benefit after the term, but it is significantly less expensive than whole life, and by that time you could be more established financially.

   Homeowner's insurance is another "must have." Paying the small monthly premium is nothing compared to losing your home and its contents in a fire or other disaster. If government-subsidized insurance is available, avoid the more expensive private coverage like flood insurance in coastal areas or near larger rivers, and earthquake insurance in California.

   Health insurance is a problem for many lower-income families. If you cannot afford a comprehensive plan, consider a catastrophic health insurance policy to cover a medical crisis that could ruin a family budget for years to come. For example, having your appendix taken out can cost $15,000—and there's no scheduling an appendix attack.

   Finally, **car insurance** is mandatory. If you're going to drive, insure your car. Period. If you have a homeowner's policy, you may be able to get an umbrella policy covering your car and your house at a cut rate.

5. **Create and agree on a will for you and your spouse or partner**. Insurance is there for the unexpected, but death is a part of life. And as we plan for life, so should we plan for death. Make sure that wills are drawn up and that you have a notarized original copy, a lawyer has a copy, and that there's a copy in a safe deposit box. (If you don't have a safe deposit box, consider getting one.) Review and update your will every five years or when you acquire significant new assets.

   While state laws vary, surviving wives usually inherit at least half of their husband's estates. However, given the nature of the modern family, inheritance can be contested by stepchildren, children, siblings and even cousins. While a jointly owned house will automatically go to the partner who survives, no one wants to inherit the house only to find they cannot afford the taxes that go with it. It is very important to state clearly whom you want to receive your property and possessions. If both parties die at the same time, a will is important to make sure that the surviving children are cared for, and that assets are fairly distributed among survivors.

6. **Save, save, save!** One reason for the high rate of poverty among older women is the lack of personal savings. According to the National Women's 2005 Retirement Survey, many women admit to not saving enough for their retirement. When asked the question, "At the present time, do you feel that you are saving enough money for your retirement?" 62 percent of women surveyed answered "No." Among women of color, the figures are even higher—74 percent for both African American and Hispanic women. Many of these women are well aware of the importance of retirement saving, but many are unable to save or are simply unaware of the steps to take.

   Albert Einstein once said, "The most powerful force in the universe is compound interest." While the great physicist may have said it with a smile, for most of us, compound interest is the greatest financial gift we will experience. When you sit down to pay the bills, try to pay yourself first. Every week, put something aside and watch your money grow. If you don't have access to a retirement plan through work, you could put your money in a pre-tax savings account like an IRA. The nice thing about these accounts is that they will lower your overall tax burden.

   It is important for you to put money aside on your own even if your husband is saving for his retirement. A recent survey revealed that female workers are more likely than males to say that a spouse is putting money aside in a retirement plan of his own, which indicates that many women intend to rely solely on their husbands to take care of their retirement. While you will most likely have access to your husband's pension in the event of his death, or a portion of it in case of divorce, it's always a good idea to have some money in your own name. This will also help your asset base in the event that you want to buy a house following a divorce or the death of your spouse. A woman needs to have her own money, even a small amount, to cover living expenses if something disastrous should occur that adversely affects the family income.

Potentially Disastrous Events

Advanced planning is one thing a woman can do to ensure that she will not slip into poverty in old age. By following the previous six steps, you can help to safeguard yourself from financial ruin in the event of divorce, death of a spouse, job loss, or a health crisis. What follows are some event-specific points that can help you navigate an event so even if it happens it doesn't become a disaster.

Divorce

Almost half of marriages today end in divorce. And because many wives have chosen to stay home and raise their children, to make sacrifices in their careers to be more available to their families, or to give their spouses the opportunity to concentrate more fully on career achievements, the financial burden of divorce usually falls most heavily on the woman.

Bank or credit card accounts: If a divorce is necessary, and particularly in the case of a contentious divorce or a divorce from a partner who has financial problems, protect yourself and your credit status first. Close any joint bank or credit card accounts as soon as possible.

Retirement plan assets: Dividing your plan assets at the time of a divorce can difficult, even if the divorce appears to be amicable and/or there are few assets beyond a house or car. Money can bring out the worst in even the best of people.

State laws recognize retirement benefits as a jointly owned asset if the benefits were earned during the marriage. This means that most types of retirement plans—for example, a pension, a 401(k) plan, or an IRA—can be divided between the spouses. However, this is not automatic. To receive a part of your spouse's retirement benefits, you need to act. As a divorcing spouse, you must get a special court order called a Qualified Domestic Relations Order (QDRO). This document establishes your legal right to receive a portion of your former spouse's retirement plans. For example, if your ex-husband dies first, you may be eligible to receive his survivor's benefits, but you need a QDRO to establish that. Unless you have a QDRO stating otherwise, if he remarries, designates someone else as a beneficiary, or dies without specifying you as his beneficiary of survivors' benefits, you could be the loser.

If you are contemplating divorce, visit WISER's Web site (www.wiserwomen.org) for a list of questions you need to ask in order to assert your right to pension and 401(k) plan assets. Don't wait until it's time to retire—that's too late.

Health insurance: Don't fall into the same trap that Mary did. When she divorced her husband, her lawyers got her the house, but didn't advise her to attach her husband's health insurance. Mary was left without coverage, and when her young child became ill, she incurred significant medical expenses. Ultimately, she lost the house that she worked so hard to get in the divorce settlement.

If your ex-husband is the primary breadwinner and his employer provides the family health insurance, you will most likely be able to continue your health insurance coverage temporarily thanks to legislation passed in 1986 called The Consolidated Omnibus Reconciliation Act of 1986 or COBRA for short. Generally, COBRA allows you to continue with your husband's group coverage for up to 36 months after your divorce or legal separation—though *you will have to pay for this coverage*. Note: COBRA coverage will terminate sooner than 36 months if you remarry or obtain coverage under another group health plan.

Social Security: These benefits are not marital property. If you meet Social Security's requirements, you can receive benefits based on your former spouse's work. In general, if you were married at least 10 years and you are unmarried when you make a Social Security claim, you can be eligible as early as age 62 for Social Security benefits as a divorced spouse, or at age 60 if you are a divorced widow. For more information on divorced spouse's benefits from the Social Security Administration, call (800) 772-1213 or check online at http://www.ssa.gov/gethelp1.htm.

Widowhood:

For millions of women, widowhood comes a lot earlier than they expect. It is not surprising that two-thirds of women over age 85 are widows; but a report by the Women's Institute for a Secure Retirement (WISER) shows that one-third of all widows lost their husbands before age 60.

The following checklist prepared by WISER is something you should read *now*. It provides information you need to have before you become a widow, so that if and/or when it happens, you will be prepared—no matter how old you are.

Widow's Checklist

- □ Expenses are likely to be 80 percent of what they were before the husband dies, but a widow's income may only be two-thirds of what it was prior to the spouse's death. Pension benefits from the husband's work generally are reduced by 50%, and Social Security benefits may be reduced by a third or more.
- □ Federal pension law requires company and union pension plans to provide a joint and survivor's benefit option. The survivor pension can only be given up if the wife gives her permission in writing.
- □ When selecting the pension benefit, a wife needs to consider the options very carefully. The joint and survivor annuity offers a smaller monthly payment than other pension benefit options. However, for women who expect to depend on their husband's pension for a source of income in retirement, this is generally the better option.
- □ If a wife and husband chose a "joint and survivor's benefit" when he retired, the widow will receive a benefit equal to half of what he had been receiving. However, if they did not choose that option, the pension benefit stops when the husband dies, because the payments would be based only on the husband's lifetime.
- □ Different rules apply to certain other retirement savings plans, such as 401(k)s. Death benefits from a 401(k) are generally paid out in a lump sum, which can be rolled over—tax-free—into an Individual Retirement Account (IRA).
- □ If the spouse worked at a state, local or federal government job, then the widow must find out what the special rules are that apply to that pension.

** This Checklist is available courtesy of Women's Institute for a Secure Retirement (WISER), and can be found at www.wiserwomen.org.

What widowhood can do to personal finances: Take note of the first item on the list: Your expenses as a widow are likely to be 80 percent of what they were prior to your husband's death, but your income may only be 66 percent of what it was before. And that's not all. If you are an older widow, the death of a spouse can cut your widow's pension benefits by 50 percent. You used to receive both his and your Social Security retirement benefits. Now, you receive only the higher of the two, and this can be a cut in total benefits of one-third or more.

On the positive side, the Social Security program provides a safety net for widowed women with children. As a young widow, you can collect benefits until your children are age 16 and the children themselves can collect until they are 18. Survivor's benefits can also go to a widow age 60 or older, children younger than 18, disabled adult children, and dependent parents. Note: An older widow's benefits continue throughout her life; survivor benefits for young widows with children, and survivor benefits for children, end when the children reach age 16 and 18 respectively.

Widowhood and pensions: Most of us don't want to talk about death with our spouses, but it's important that we do, especially when it comes to pension benefits. Be smart. Find out everything you can about your spouse's pension and survivor's benefits.

Federal law requires company and union pension plans to provide a joint and survivor's benefit option; as a wife, you should not give up that benefit unless you have your own sources of retirement income. Taking the joint and survivor option means that the pensioner has an option of taking a larger payment during his lifetime, or taking a slightly smaller one, which then provides a survivor annuity for his spouse. If you have no independent source of income, you should never give up your right to a survivor pension even if it means living on slightly less during your husband's lifetime. *(Giving up that right must be done in writing.)* If your husband dies, and you have a survivor benefit, you will get a portion of his pension benefit amount. If the two of you did not choose the joint and survivors benefit, his pension stops at his death, and you, the widow, get nothing.

The law applies different rules to retirement savings plans such as **401(k)s**. Death benefits from the 401(k) are usually paid out in a lump sum. *There are tax consequences if you, as a widow, receive a lump sum before you are age 59 ½.* Consult with a tax lawyer or accountant and roll the money over into an Individual Retirement Account (IRA), or put money aside for taxes if you need to use some of the money for expenses. A few dollars spent on a good accountant or a lawyer could save you thousands in unnecessary taxes later.

State, local and federal government pensions have rules that are different from those for private pensions. Government human resource offices can provide all the rules and regulations as they apply to spouses and widows. As a spouse, you should get this information in advance, so you don't end up unprepared should the unexpected happen.

For example, after leaving her job as a nurse to raise her kids, Nikki's husband, a military contractor who was an Army reservist, was deployed and killed in the line of duty. Left to care for three small children on her own, hundreds of miles from her family, it took her almost a year and intervention from her Member of Congress before Nikki discovered all the veteran's benefits that were due her and her children. This raises an important point: When it comes to any type of *federal benefits*, if the system is wearing you down, contact your Member of Congress. However, there is much you can do before that time to prevent these situations from putting a strain on your life and the well-being of your children. Talk to the human resources employees who staff the offices where your spouse worked and read whatever is available. Know what you are entitled to so that if a tragedy happens, you will know what to do.

Unemployment

If you lose your job, unemployment insurance is available to you. While the monthly benefits are less than a typical salary, and only temporary (up to 26 weeks), it can make the difference between paying the mortgage or being able to keep that health insurance, and declaring bankruptcy. If you lose your job and do not get another one immediately, take advantage of unemployment insurance. That's what it is there for.

It is important that, from the time you begin collecting unemployment, you start looking for another job. Employment counselors tell many sad stories of individuals who collected unemployment insurance for months, confident of their ability to eventually get work, only to find that their skills were out-of-date and jobs were scarce when the unemployment insurance ran out.

Medical Emergencies

Finally, be aware that unexpected illnesses or hospitalizations can easily break a family budget. If you need assistance, hospitals can help people with low incomes pay their hospital bills by processing an application through the state's charity care program, if one exists. Many states also have created pools of money to cover those without insurance. The Bureau of Primary Health Care sponsored by the U.S. Department of Health and Human Services, will help you find a clinic that will give you care even if you do not have health insurance. To find the clinics available in your city go to http://ask.hrsa.gov/pc/.

If you have very low or no income, you and your children may be eligible for the government-sponsored Medicaid and State Children's Health Insurance Programs (SCHIP). Call your state Medicaid office for more information on eligibility for these programs.

Conclusion

Nothing can prevent the tragedies in life. You can't cheat death, accidents happen, and not all jobs or marriages will last. But by arming yourself with household financial knowledge, creating a private credit history, purchasing the necessary insurance, and saving, you can make the difference between spending your retirement years in financial hardship and enjoying the best that your later years have to offer. No one can predict the future, but you *can* plan for the unexpected and help to ensure that you are protected no matter what lies ahead.

Biographies

(By Order of Chapter)

Teresa Heinz Kerry

Teresa Heinz Kerry is chairman of The Heinz Endowments and the Heinz Family Philanthropies. In her role as Chairman, she has helped educate women on the importance of pensions, savings, and retirement security. She established the Women's Institute for a Secure Retirement, a Washington-based think tank and underwrote publication of a nationally-acclaimed book, *Pensions in Crisis* and a magazine supplement, "What Every Woman Needs to Know About Money and Retirement.'' The supplement was published in *Good Housekeeping* and US Airway's *Attaché* magazine and has been translated into Chinese, Portuguese, and Spanish.

Born and raised in Mozambique, she received a Bachelor of Arts degree in romance languages and literature (French, Portuguese and Italian) from the University of the Witwatersrand in Johannesburg, South Africa and graduated from the Interpreters School of the University of Geneva. She speaks five languages. She is married to U.S. Senator John Kerry.

Cindy Hounsell

Cindy Hounsell is the President of *WISER,* Women's Institute for a Secure Retirement, a nonprofit organization. An experienced pension attorney, Ms. Hounsell has testified before Congress, served as a delegate for a number of White House Summits and conferences including the last two White House Conferences on Aging, the White House Social Security Conference and each of the National Retirement Saver Summits. She has written several chapters, columns, articles, op-eds, papers and booklets on women and retirement. She has co-authored two booklets, *What Every WOMAN Needs to Know About MONEY And RETIREMENT: A Simple Guide* and *What Everyone Needs to Know About Money and Retirement.* The booklets appeared as inserts in *Good Housekeeping* magazine, to a readership of over 26 million readers and in *Attachè,* the in-flight magazine of US Airways.

Beth Kobliner

Beth Kobliner has been writing and speaking on personal finance for more than fifteen years. She is the author of Get a Financial Life: Personal Finance in Your Twenties and Thirties (Simon & Schuster), a New York Times and USA Today bestseller and a Business Week bestseller for two years running. As a financial expert, Kobliner regularly appears on television and radio. She has been a regular commentator on MSNBC and has been a repeat guest on CNN, World News This Morning (ABC), Oprah, Today (NBC), This Morning (CBS), CNBC, and public radio's Talk of the Nation and Marketplace. Beth holds a B.A. from Brown University. She lives with her husband and three children in New York City.

Elizabeth Warren

Professor Elizabeth Warren is the Leo Gottlieb Professor of Law at Harvard University. She is the co-author of eight books and more than a hundred scholarly articles. Her latest book with her co-author daughter Amelia Warren Tyagi is *All Your Worth.* This book talks with a wide audience in mind about money; it was listed on both the Wall Street Journal business book bestseller list and the New York Times non-fiction bestseller list. Her earlier book, also with Tyagi, *The Two-Income Trap: Why Middle-Class Parents Are Going Broke,* has been the subject of reviews and new stories from

Time and *Newsweek* to *Dr. Phil.* Warren has been principal investigator on empirical studies funded by the National Science Foundation and more than a dozen private foundations. She serves on the steering committee of the Tobin Project, the executive committee of the National Bankruptcy Conference, and a committee to Advise the Federal Deposit Insurance Corporation about consumer financial issues. The National Law Journal has repeatedly named Professor Warren as one of the Fifty Most Influential Women Attorneys in America.

Amelia Warren Tyagi
Amelia Warren Tyagi is the co-founder and Chief Operating Officer of the Business Talent Group. She co-authored *All Your Worth* and *The Two-Income Trap: Why Middle-Class Parents Are Going Broke*. Previously, Ms. Tyagi co-founded HealthAllies, a venture capital-backed health benefits firm which was later acquired by United Health Group. She began her career as a consultant with McKinsey & Company. She has written for Time, USA Today, The Chicago Tribune, and other publications on a variety of topics including the US economy, health care, and women and work, and she is a regular commentator for the nationally syndicated radio show Marketplace. Ms. Tyagi serves on the board of Demos, a prominent progressive think tank. She holds a B.A. from Brown University, and an M.B.A. from the Wharton School. She is also mother of two daughters, ages 6 and 2. Amelia lives in Los Angeles, California, with her husband and young daughter. Elizabeth and Amelia are mother and daughter.

Jo Anne B. Barnhart
Jo Anne B. Barnhart served as Commissioner of Social Security from 2001 to 2007. In that capacity, she had responsibility for the nation's Social Security retirement and disability insurance programs and Supplemental Security Income (SSI), providing benefits to 50 million individuals each month. Prior to her tenure at the Social Security Administration, Ms. Barnhart ran her own political and public policy consulting firm and held a number of positions in both the executive and legislative branches including Assistant Secretary for Children and Families, Minority Staff Director for the U.S. Senate Government Affairs Committee, and Associate Commissioner for Family Assistance. She also served on the Social Security Advisory Board from 1997 to 2001. Born in Memphis, Tennessee, she is a graduate of the University of Delaware.

E. Lisa Wendt
As President and Chief Executive Officer of LifeSecure, E. Lisa Wendt has over 20 years of senior leadership experience in the insurance industry; including life insurance, property and casualty and long-term care (LTC). She successfully lead the company as it developed a new long-term care industry business model, including product, selling systems and support capabilities and the comprehensive integration and utilization of Information Technology across all areas and functions of the enterprise. Lisa is highly committed to advancing LTC advocacy efforts and has been a speaker at numerous LTCI industry events. Lisa holds a B.A. from Simon Fraser University of British Colombia (Canada), an M.B.A. from University of Western Ontario (Canada), and is a fellow of the Life Office Management Association (LOMA).

Consumer Education Committee of the Actuarial Foundation
The Actuarial Foundation's consumer education initiatives help promote public understanding of some of today's most pressing social issues. Through partnerships, our initiatives focus on providing information in areas where there are gaps in consumer knowledge and understanding.

By using actuarial science to contribute to finding workable solutions, we provide insight for consumers to make informed decisions, to exercise prudent use of their financial resources, and/or to efficiently manage changing economic situations. Our consumer education efforts reflect our profession's commitment to the public good.

Jeffrey R. Lewis
Jeffrey R. Lewis has been employed by the Heinz Family Office since May of 1991. Mr. Lewis serves as Chief of Staff for Teresa Heinz Kerry, and as President and Chief Operating Officer for the Heinz Family Philanthropies. Prior to joining the Heinz Family, Mr. Lewis was the Republican Staff Director for the late United States Senator John Heinz. He also worked for Senator Pete Domenici as the Deputy Staff Director for the U.S. Senate Special Committee on Aging, as a senior legislative assistant for Senator Bob Packwood, and as Senior Policy Advisor for Senator John Kerry. Mr. Lewis has worked at the state level having served as an assistant to the governor of Oregon. Mr. Lewis has been published extensively, he has written several chapters, columns, articles, op-eds, papers and booklets on women and retirement. He has co-authored two booklets, *What Every WOMAN Needs to Know About MONEY And RETIREMENT: A Simple Guide* and *What Everyone Needs to Know About Money and Retirement.* The booklets appeared as inserts in *Good Housekeeping* magazine, to a readership of over 26 million readers and in *Attachè*, the in-flight magazine of US Airways. Mr. Lewis holds a juris doctorate from the Northwestern School of Law of Lewis and Clark College; has a Master of Science Degree from the University of Southern California, Leonard Davis School of Gerontology; and a bachelor’s degree from the University of Michigan.

Maria C. Cordone
Maria Cordone is the Director of the Community Services/EAP/Retirees Department of the International Association of Machinists and Aerospace Workers (IAM&AW), an organization with over 300,000 retired members. As the Director, she provides training and growth opportunities for active and retired members by recruiting, organizing and coordinating senior members in retiree chapters, and working with active members to initiate and implement programs for Employee Assistance and Community Services Representatives. Maria also creates literature and materials for department programs, and is responsible for the departmental annual budget. Maria has developed conferences and training programs to organize and strengthen active membership, and, in addition she has increased membership visibility in retiree chapters along with networking capabilities. She has also created new programs to increase benefits for members.

Resources:

Department of Labor: Employee Benefits Security Administration Regional Offices

Atlanta Regional Office
61 Forsyth Street, SW, Suite 7B54
Atlanta, GA 30303
Howard Marsh – Director
Tel 404.302.3900
Fax 404.302.3975
Serves:
Alabama
Florida (northern)
Georgia
Mississippi
North Carolina
South Carolina
Tennessee

Boston Regional Office
J.F.K. Building, Room 575
Boston, MA 02203
James Benages – Director
Tel 617.565.9600
Fax 617.565.9666
Serves:
Connecticut
Maine
Massachusetts
New Hampshire
New York (central/western)
Rhode Island
Vermont

Chicago Regional Office
200 West Adams Street, Suite 1600
Chicago, IL 60606
Steven Haugen – Director
Tel 312.353.0900
Fax 312.353.1023
Serves:
Illinois (northern)
Indiana (northern)
Wisconsin

Cincinnati Regional Office
1885 Dixie Highway, Suite 210
Ft. Wright, KY 41011-2664
Joseph Menez – Director
Tel 859.578.4680
Fax 859.578.4688
Serves:
Indiana (southern)
Kentucky
Ohio

Dallas Regional Office
525 South Griffin Street, Room 900
Dallas, TX 75202-5025
Roger Hilburn – Director
Tel 972.850.4500
Fax 214.767.1055
Serves:
Arkansas
Louisiana
New Mexico
Oklahoma
Texas

Detroit District Office
211 West Fort Street, Suite 1310
Detroit, MI 48226-3211
Patrick Kawa – Supervisor
Tel 313.226.7450
Fax 313.226.4257
Serves:
Michigan

Kansas City Regional Office
1100 Main Street, Suite 1200
Kansas City, MO 64105-5148
Steve Eischen – Director
Tel 816.426.5131
Fax 816.426.5511
Serves:
Colorado
Illinois (southern)
Iowa
Kansas
Minnesota
Missouri
Montana
Nebraska
North Dakota
South Dakota
Wyoming

Los Angeles Regional Office
1055 East Colorado Blvd., Suite 200
Pasadena, CA 91106-2341
Billy Beaver – Director
Tel 626.229.1000
Fax 626.229.1098
Serves:
American Samoa
Arizona
California (southern)
Guam
Hawaii
Wake Island

Miami District Office
8040 Peters Road, Bldg H, Suite 104
Plantation, FL 33324
Isabel Colon – Supervisor
Tel 954.424.4022
Fax 954.424.0548
Serves:
Florida (southern)
Puerto Rico

New York Regional Office
33 Whitehall Street, Suite 1200
New York, NY 10004
Jonathan Kay – Director
Tel 212.607.8600
Fax 212.607.8681
Serves:
New Jersey (northern)
New York (eastern)

Philadelphia Regional Office
Curtis Center
170 S Independence Mall West, Suite 870 West
Philadelphia, PA 19106-3317
Mabel Capolongo – Director
Tel 215.861.5300
Fax 215.861.5347
Serves:
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New Jersey (southern)
Pennsylvania

San Francisco Regional Office
90 7th Street, Suite 11-300
San Francisco, CA 94103
Francis Clisham – Director
Tel 415.625.2481
Fax 415.625.2450
Serves:
California (northern)
Nevada
Utah

Seattle District Office
1111 Third Avenue, Suite 860
Seattle, WA 98101-3292
Duane Peterson – Supervisor
Tel 206.553.4246
Fax 206.553.0913
Serves:
Alaska
Idaho
Oregon
Washington

Washington District Office
1335 East-West Highway, Suite 200
Silver Spring, MD 20910
Elizabeth Bond – Supervisor
Tel 301.713.2000
Fax 301.713.2008
Serves:
Maryland
Virginia
Washington DC
West Virginia

U.S. Department of Labor Women's Bureau Regional Offices

To reach any of these offices toll free, dial 1-800-827-5335.

Region I: Boston
(CT, ME, MA, NH, RI, VT)
Ms. Jacqueline Cooke, Regional Administrator
J.F.K. Federal Building, Government Center
Room E-270
Boston, MA 02203
617-565-1988

Region II: New York City
(NJ, NY, PR, US Virgin Islands)
Ms. Jacqueline Cooke, Regional Administrator
201 Varick Street, Room 602
New York, NY 10014-4811
212-337-2389

Region III: Philadelphia
(DE, DC, MD, PA, VA, WV)
Ms. Lucia Bruce, Program Analyst
The Curtis Center, Suite 631 East
170 S. Independence Mall West
Philadelphia, PA 19106
215-861-4860

Region IV: Atlanta
(AL, FL, GA, KY, MS, NC, SC, TN)
Ms. Paulette Norvel Lewis, Regional Administrator
Atlanta Federal Center, Suite 7T95
61 Forsyth Street, SW
Atlanta, GA 30303
404-562-2336

Region V: Chicago
(IL, IN, MI, MN, OH, WI)
Ms. Nancy Chen, Regional Administrator
230 S. Dearborn Street, Room 1022
Chicago, IL 60604
312-353-6985

Region VI: Dallas
(AR, LA, NM, OK, TX)
Ms. Beverly Lyle, Regional Administrator
Federal Building, Suite 735
525 Griffin Street
Dallas, TX 75202
214-767-6985

Region VII: Kansas City
(IA, KS, MO, NE)
Center City Square Building
1100 Main Street, Suite 845
Kansas City, MO 64105
816-426-6108

Region VIII: Denver
(CO, MT, ND, SD, UT, WY)
Ms. Frances Jefferson, Regional Administrator
1999 Broadway, Suite 1620
P.O. Box 46550
Denver, CO 80201
303-844-1286

Region IX: San Francisco
(AZ, CA, GU, HI, NV)
Ms. Jenny Erwin, Regional Administrator
90 7th Street, Suite 2-650
San Francisco, CA 94103
415-625-2640

Region X: Seattle
(AK, ID, OR, WA)
1111 Third Avenue, Suite 925
Seattle, WA 98101
206-553-1534

Non-Profit and U.S. Government Resources for Workshop Speakers & Information

The purpose of this Resource Guide is to provide a list of organizations that may be helpful in planning and putting on a workshop in your community. A number of these organizations and government agencies may be able to provide speakers from their local offices.

Women's Institute for a Secure Retirement (WISER)

WISER's mission is to inform women about the issues that affect their long-term financial security. WISER's workshops and written materials provide women with the tools to take an active role in planning for their retirement.
c/o Heinz Family Philanthropies
1101 Pennsylvania Avenue, Suite 350
Washington, DC 20004
202-393-5452
www.wiserwomen.org
info@wiserwomen.org
Cindy Hounsell, Executive Director

National Council of Women's Organizations

Women and Social Security Project

NCWO is a nonpartisan network of over 100 women's organizations representing more than 6 million women. In 1998, NCWO formed a women and Social Security Task Force to address the critical issue of Social Security reform and to help policy makers understand women's stake in this critical issue.
1050 17th Street, NW
Suite 250
Washington, DC 20036
202-293-4505

AARP

601 E Street, NW
Washington, DC 20049
888-687-2277
Call AARP to locate their state and local offices nearest you.
Information on state offices is also listed at www.aarp.org/statepages.

National Committee to Preserve Social Security and Medicare

10 G Street, NE, Suite 600
Washington, DC 20002
202-216-0420
800-966-1935
www.ncpssm.org
Call for information on local chapters and grassroots resources.

National Center on Women and Aging

The Heller School for Social Policy and Management
Institute on Assets and Social Policy, MS 035
Brandeis University
Waltham, MA 02454-9110
781-736-3826
800-929-1995
www.brandeis.edu/heller/national/ind.html
NCWA has compiled a directory of the best information on the Internet on a range of financial topics. It is available on their website.

Older Women's League (OWL)

3300 N. Fairfax Drive
Suite 218
Arlington, VA 22201
(703) 812-7990 ext.21
(703) 812-0687
owlinfo@owl-national.org
Call OWL for information on local chapters and resources.
Information on local chapters is also listed at http://www.owl-national.org/chapters/index.html.

Pension Counseling Projects

The Administration on Aging funds pension counseling projects that provide individual counseling and assistance. These projects are providing assistance in:

Arizona
PCOA Pima Council on Aging
520-790-7262

California
Pension Rights Project
Within California: 800-474-1116

Chicago Pension Rights Project
312-341-1070

The Midwest Pension Rights Project
Serving Chicago Area (for southern IL see below)
Chicago Area: 312-744-3580
St. Louis Area: 314-725-1516
Hotline: 1-877-725-1516

Iowa
Pension Rights Project
515-282-8161 or 800-992-8161
www.iowalegalaid.org

Kentucky Pension Rights Project
800-200-3633

Michigan
Great Lakes Pension Project
Elder Law of Michigan
517-372-5959 or 800-347-5297

Missouri & Southern Illinois
OWL Pension Benefits Project
Serving MO, AR, KS, MS
and southern IL
314-725-1516 or 877-725-1516
www.midwestpension.org

Minnesota
Pension Rights Project
Serving ND, SD and MN
866-783-5021
Minnesota Senior Federation
651-645-0261 or 800-365-8765
www.mnseniors.org

New England
Pension Action Center
Serving CT, ME, MA, NH, RI and VT
for Massachusetts: 617-287-7307
for New England: 888-425-6067
www.pensionaction.org
Gerontology Institute
617/287-7300
www.geront.umb.edu

New York
Pension Assistance Hotline
(646) 442-3310
Outside NYC: 800-355-7714

Ohio
Ohio Pension Rights Project
ProSeniors
800-488-6070
www.proseniors.org

Pennsylvania Senior Law Help Line
877-727-7529

Texas
Pension Rights Project
Serving TX, OK and NM
888-343-4414

Wisconsin
Upper Midwest Pension Rights Project
(608) 224-0660 or
800-488-2596
www.cwag.org/legal/pension-rights

U.S. Social Security Administration Regional Communications Directors

There are 1,300 local Social Security offices across the country. There are several ways to find the office closest to you. You can call 1-800-772-1213 and ask for the phone number of your local Social Security office. Or you can look in the U.S. Government section of your telephone book. Finally on the Social Security Administration's website – www.ssa.gov – click on "Use Your Zip Code to Find Our Office" on the lower right side of the page.

Boston (CT, ME, MA, NH, RI, VT) Social Security Administration O'Neill Federal Bldg. 10 Causeway St. Room 148 Boston, MA 02222 http://www.ssa.gov/boston/index.htm	**Chicago** (IL, IN, MI, MN, OH, WI) Social Security Administration 1233 West Adams Chicago, IL 60607 http://www.ssa.gov/chicago
New York (NJ, NY, PR, US Virgin Islands) Social Security Administration 26 Federal Plaza Room 120, 31st Floor New York, NY 10278 http://www.ssa.gov/ny/index.htm	**Dallas** (AR, LA, NM, OK, TX) Social Security Administration 3231 King Jr. Blvd, Room 1440 Dallas, TX 75210 http://www.ssa.gov/dallas/index.htm
Philadelphia (DE, DC, MD, PA, VA, WV) Social Security Administration Suite 2000, 20th Floor 1234 Market St Philadelphia, PA 19123 http://www.ssa.gov/phila/index.htm	**Kansas City** (IA, KS, MO, NE) Social Security Administration 1624 E. 63rd St. Kansas City, MO 64110 http://www.ssa.gov/kc
Atlanta (AL, FL, GA, KY, MS, NC, SC, TN) Social Security Administration 61 Forsythe Street, SW, Suite 23T29 Atlanta, GA 30303 http://www.ssa.gov/atlanta/index.htm	**Denver** (CO, MT, ND, SD, UT, WY) Social Security Administration Federal Office Building 1616 Champa Street, 4th Floor Denver, CO 80294 http://www.ssa.gov/denver/index.htm

San Francisco (AZ, CA, GU, HI, NV) Social Security Administration Suite 100, 1st Floor 1211 Nevin Avenue Richmond, CA 94804 http://www.ssa.gov/sf/index.htm	**Seattle** (AK, ID, OR, WA) Social Security Administration Suite 100 901 Lenora Seattle, WA 98121 http://www.ssa.gov/seattle/index.htm

Glossary of Terms

Annuity: Provides a regular series of payments, usually monthly, over a specified period of time, often for life. The purpose is to provide a steady stream of income.

Beneficiary: The person designated to receive pension, life insurance or other benefit payments if the participant or insured dies first.

Covered: A person who works for an employer who provides a plan, but until or unless certain requirements are met, such as length of service, she may not be eligible to participate in or receive benefits from the plan.

Defined Benefit Plan: A traditional pension plan, insured by the government, that pays a certain specified benefit, usually based on age at retirement, rate of pay, and the number of years worked. The employer is responsible for the plan and bears the risk.

Defined Contribution Plan: A retirement plan in which contributions are made by the employee, the employer, or both. The final payout depends on how much is invested and the success of the investments. This type of plan is not insured by the government, and the employee bears the risk.

Early Retirement Age: A term used by Social Security, early retirement age, generally 62, is the earliest age a worker can receive retirement benefits from Social Security.

Employee Retirement Income Security Act (ERISA): The federal law, which took effect in 1976, which regulates private pensions.

401(k) Plan: A voluntary savings plan, named for the section of the tax code that established it. Employees contribute a portion of their salaries, and employers may match some or all of their employees' contributions. Depending on the type of 401(k), it can be tax deferred or tax free at withdrawal. The employee bears the investment risk.

403(b) Plan: A voluntary savings vehicle for the non-profit sector, also named for the section of the code. It is similar to the 401(k).

Individual Retirement Account (IRA): An IRA is an individual savings account that gives tax advantages to those saving money for retirement.

Joint & Survivor Benefit: The worker receives monthly pension benefits for life, and at the worker's death, the survivor will continue to receive some portion of those benefits. This option results in lower monthly payments during the worker's lifetime.

Lump-Sum Payment: Payment of an entire accrued benefit.

Participation: Whether a worker is included in a company's pension plan. Employers, for example can place requirements on participation such as a worker must work more than 1,000 hours in any year, or must have worked for the employer for at least one year.

Pension Integration: Subtraction of part of an individual's Social Security benefit amount from the pension benefit amount.

Portability: The ability to take a vested retirement benefit from one employer and roll it either to a retirement plan with another employer, or to an individual retirement account (IRA).

Qualified Domestic Relations Order (QDRO): A court order, or a court-approved property settlement agreement, that requires a pension plan to pay a share of a worker's pension to an "alternate payee"—usually the ex-spouse.

Roth IRA: Taxes are paid on the contributions before they are put in the Roth IRA (they are not deferred). However, the money is not taxed when it is withdrawn at retirement.

Saver's Tax Credit: A tax break for low-wage singles and couples who contribute to a 401(k) or an IRA.

SEP-IRA: Simplified Employee Pension (SEP) that allows self-employed workers to save for retirement and small business employers to provide pension benefits to their employees.

SIMPLE IRA: A salary-reduction plan similar to a 401(k) for businesses with 100 people or fewer.

The Windfall Reduction and the Public Pension Off-Set: Both are offsets that affect your Social Security benefit amount if you have worked for federal, state, or local governments that did not contribute to Social Security.

Tax-Deferred: Money that is not taxed at the time you earn it, because you have invested it in a tax-deferred savings vehicle, such as a traditional IRA.

Vested: You have a legal right to receive benefits from a savings or pension plan.