

Strategies to retire in the black-and stay in the black

John and Sheila Bark* made all the wrong decisions when planning for retirement.

They saved modestly throughout their career, not wanting to deny having fun along the way (Mistake 1). They both elected early retirement, at age 62, and began drawing Social Security (Mistake 2). They took their small pensions as lump-sum cash distributions, thinking they could better manage the money themselves (Mistake 3). They sold their paid-up home in Michigan and moved to a new home in Arizona, assuming a new mortgage (Mistake 4). They figured they'd golf, sit in the sun and never have to work again.

Now, 10 years later, they are 72 and their lives have not worked out the way they expected. John has prostate cancer. The condition was detected at age 63, so he went two years before being eligible for Medicare. Things unraveled quickly. First, his self-paid catastrophic medical plan didn't cover much of his treatment costs. These costs were paid with savings. Meanwhile, their assets were whittled away by their new mortgage and membership in a country club. They felt the sting of taking reduced early Social Security benefits. Overall, they had fewer dollars invested for long-term income. This quickly reduced them to a limited lifestyle.

It gets worse. John considered himself an investment expert (remember Mistake 3)? He figured that since they needed more money to cover medical costs, he should buy some high-potential Internet companies. From 2001 to 2003, their assets almost disappeared. Sheila went back to work part-time at a local department store. She doesn't know how much longer she can take the strain of being on her feet all day. She will likely live at least 15 years longer than John, with little income to sustain her. Meanwhile, John's health is rapidly deteriorating.

If you think this story is an exception, consider this: Bankruptcies among people 65 and older, still relatively rare, are the fastest growing of any age group. In 2001, 100,000 elderly Americans filed for bankruptcy, more than double the rate in 1991. Debt in households headed by someone 65 or older increased 150 percent in the 10 years ending in 2002, to an average of about \$20,000.

So, what can you do now to avoid this scenario, especially if you are about to retire or are just retired? Experts recommend the following ways to better insure a retirement that starts in the black and stays in the black:

1. **Plan to dramatically reduce your housing costs.** This could be your biggest expense in retirement. If you can, pay off your mortgage, or move to a

Neither the information presented nor any opinion expressed constitutes a representation by us or a solicitation for the purchase or sale of any securities. AMS does not sponsor or endorse any entities or Web sites mentioned in this article, nor can AMS be responsible for their content.

© 2006 Asset Marketing Systems Insurance Services, LLC. All rights reserved.

MMR 0306

NASD Review Letter Reference # FX2006-0106-0018/E

less expensive home where you can buy it outright from the profits of your current home sale. Consider moving to a location with lower property taxes (and a generally lower cost of living). Such a move would counter the unfortunate trend of retirees increasing their mortgage debt, from \$12,000 in 1989 to \$39,000 in 2001, according to Harvard's Joint Center for Housing Studies.

2. **Eliminate credit card debt.** Interest rates on extended credit card debt make it difficult to catch up and pay it off. The debt can be a never-ending obligation. Retirees should never finance expenses using credit card debt. Between 1990 and 2000, Americans 65 and older increased their credit-card debt by 149 percent, according to the AARP.
3. **Continue working.** Even if you move to a part-time job, you will be augmenting your income instead of drawing down savings. More and more retirement age people realize that work—even part-time work—keeps them active and involved. If you can get a job that will continue employer-sponsored health insurance until you are eligible for Medicare, you reduce your vulnerability to catastrophic illness expenses that could rapidly deplete your investments.

Retirement can be a new, exciting and rewarding chapter in life. Retiring in the black and staying in the black will increase your satisfaction and reduce the stresses and strains of economic worry.

Neither the information presented nor any opinion expressed constitutes a representation by us or a solicitation for the purchase or sale of any securities. AMS does not sponsor or endorse any entities or Web sites mentioned in this article, nor can AMS be responsible for their content.

© 2006 Asset Marketing Systems Insurance Services, LLC. All rights reserved.

MMR 0306

NASD Review Letter Reference # FX2006-0106-0018/E