Money Management 1-2-3:
THREE: Planning a Secure Future

At some point, the working years become the retirement years. Changes in income and expenses can be difficult to adjust to at first. To make the transition as smooth as possible, you'll need to step up your planning and saving in the years just before you retire.

Investing for a longer life

It's not uncommon for at least one member of a couple to live to 90 or beyond. That means preparing for decades without a paycheck.

To start, take advantage of your retirement plan's "catch-up provision." If you're 50 or older, you can save additional money each year in an IRA (individual retirement account), 401(k) or other retirement plan. The amounts change each year. Visit the Internal Revenue Service (IRS) website (https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-contributions) or ask your workplace benefits administrator for information.

Many financial planners say that even retirees need to keep some of their money invested for growth and income—in other words, in stocks and bonds—to meet the needs of a longer life. Conservative (low-risk) savings choices do not offer the returns necessary to make your money last. The investment plan that will work best for you depends on many factors, including your risk tolerance and financial resources. Learn more at the Securities & Exchange Commission (SEC) investor education website (https://www.investor.gov). If you would like professional investment help, consider consulting a fee-only financial adviser (https://www.investor.gov/introduction-investing/general-resources/news-alerts/alerts-bulletins/investor-bulletins/investor-0) rather than someone who earns a commission through your investments.

Retirement income

Depending on when you were born, Social Security full retirement age is anywhere from 65 (1937 or earlier) to 67 (1960 and later). You can begin receiving Social Security retirement benefits as early as age 62, but starting any time before full retirement age will reduce your monthly checks for life. Waiting until age 70 allows you to max out your monthly benefit. Learn more at SSA.gov (*https://www.ssa.gov/benefits/retirement/planner/agereduction.html*).

To get an estimate of your monthly retirement benefit at different ages, create an online "my Social Security" account (*https://www.ssa.gov/myaccount/*). The Social Security Administration (SSA) sends an annual paper statement to workers age 60 and over who aren't receiving Social Security benefits and do not have an online account, but it's important to be able to monitor your account regularly, to catch any errors and to plan for future benefits. Establishing an online account, rather than relying on a single annual statement, provides more flexibility. Your only other option is to submit a Form 7004 (*https://www.ssa.gov/help/global_statement7004.html*) every time you want a printed copy (a four-to-six-week wait).

Under ordinary circumstances, IRAs, 401(k) plans, pensions, annuities and other retirement plans can only be tapped without penalty beginning at age 59½. However, employees can take penalty-free distributions from their 401(k) or similar plan before age 59½ if they are at least 55 years old the year they retire, quit or get fired; if they become permanently disabled; or if they have unreimbursed medical expenses exceeding 7.5% of adjusted gross income. Check with the plan administrator to find out its rules before counting on this option.

You can withdraw your contributions from a Roth IRA at any time without paying a penalty, but you can only withdraw account earnings tax- and penalty-free beginning at age 59½, and only if the account is at least five years old. (There are some exceptions.) Learn more at the Charles Schwab website (*https://www.schwab.com/ira/roth-ira/withdrawal-rules*).

You may also be able to tap your retirement savings before age 59½ without penalty if you meet the requirements for a hardship withdrawal, or if you take equal, regularly scheduled distributions according to an IRS formula. Learn more at Bankrate.com (*https://www.bankrate.com/retirement/ways-to-take-penalty-free-withdrawals-from-ira-or-401k/*).

The way you tap your retirement accounts is a major financial decision, and one that shouldn't be left until the last minute. Consider talking to a financial adviser or tax professional before making any decisions that could result in a penalty or a tax bill.

Non-retirement accounts allow you to withdraw money at any age without penalty—a valid reason to continue saving even after you have maxed out contributions to employer-sponsored plans and IRAs.

Home equity loans

Your home equity is the value of your home minus what you owe on it. Interest rates on home equity loans are typically lower than those on consumer credit and other types of loans. And, the interest you pay is sometimes tax-deductible.

While a home equity loan can be a good financial tool for many homeowners, it can also put your home in jeopardy. A home equity line of credit (HELOC), for example, functions much like a credit card (with a very high limit), and can, similarly, be difficult to resist using. And the typical interest-only payments make it challenging to pay down the principal. Also, since these loans come with a variable interest rate, the interest charges could increase while you carry a balance, making monthly payments higher and potentially unaffordable. You could lose your property (foreclosure) if you are unable to make the monthly loan payments. Learn more about what to consider before taking out a home equity loan here: *https://www.bankrate.com/home-equity/home-equity-loan-risks-and-how-to-avoid-them/*.

If you decide to take out a home equity loan, work only with a reputable lender. There are dishonest lenders who intentionally give expensive home equity loans to older homeowners that are impossible to repay so that they can foreclose on the property. Beware of anyone who approaches you about any loan that uses your home as collateral.

Review any loan contract with someone you trust. Many local bar associations, senior organizations and colleges offer low-cost legal services. Or contact a government-approved housing counseling agency (*https://hudgov-answers.force.com/housingcounseling/s/*) for guidance.

Reverse mortgages

A reverse mortgage allows older homeowners who owe little or nothing on their property to borrow against their equity without having to make monthly payments for as long as they live in the home. (The most common type of reverse mortgage, the Federal Housing Administration [FHA]-insured Home Equity Conversion Mortgage [HECM] [https://www.hudexchange.info/programs/housing-counseling/hecm/], requires borrowers to be age 62 or over.) Borrowers can receive a lump sum, a monthly payment, a line of credit, or some combination of these.

Interest accrues on the loan, but no payments must be made until the home is sold, the borrower moves out of the property, or the last surviving borrower dies, at which point the entire loan balance must be repaid. If heirs choose to keep the home, they must be able to pay off the loan (taking out a new mortgage to pay off the reverse mortgage might be an option). Otherwise, if the value of the home exceeds the loan balance, the homeowner or heirs would keep the difference between the sales price and the amount due. If the amount borrowed exceeds the value of the home, the lender can't seek additional payments.

While no minimum credit score is required for HECM applicants, they must undergo a financial assessment by the lender to ensure they can meet the ongoing expenses of homeownership (maintenance, property taxes, insurance, etc.). A reverse mortgage also typically requires the borrower to meet with a government-approved housing counselor before applying. For a referral in your state, visit HUD's HECM website (https://www.hudexchange.info/programs/housing-counseling/hecm/origination/#resources-for-hecm-counselors) or call HUD at 800-569-4287.

A reverse mortgage isn't right for everyone. The loans are relatively expensive (https://www.consumerfinance.gov/ask-cfpb/how-much-does-a-reverse-mortgage-loan-cost-en-237/). If you plan to leave the home soon or you don't need much money, they are not a good option.

If you receive state or federal benefits, such as Medicaid or SSI, you must spend your reverse mortgage advance within the month you receive the money or it could jeopardize your eligibility for these programs. Consult a qualified adviser for guidance.

Protecting assets

It would be very difficult, if not impossible, to recover from the losses that could result from a fire, car accident or lawsuit if you don't have protection. As your assets increase, so does the need for sufficient insurance coverage. This includes health, auto and a homeowners or renters policy, and might include other types of coverage as well.

A major risk is being underinsured. It's very important to increase your coverage as your needs increase. Review your coverage every few years, and any time there is a significant change in your life (for example, you get a dog, or your teenager begins driving) or your assets (you add on to your home or get a new car, for example). Consumer Action's publication Time for an Insurance Checkup: Assessing and adjusting your coverage (https://www.consumer-action.org/english/articles/insurance_checkup) can help guide you through the process.

If you have significant assets, consider buying an umbrella liability policy. This extra coverage, which is relatively inexpensive, kicks in to provide additional liability protection when you reach the limit on your underlying homeowners, renters or auto policy. Considering the number of lawsuits filed and the dollar amount of damages awarded, an umbrella policy can provide important protection.

Learn more about insurance from the Insurance Information Institute (https://www.iii.org).

Long-term care insurance

Long-term care insurance pays the costs of receiving help with daily activities, such as eating, bathing and dressing, whether in a nursing home or your own home. Medicare and most private health insurance policies pay only for "skilled" care, not this "custodial" care. Unlike auto and homeowners insurance, which are required by lenders, long-term care insurance is optional.

Generally speaking, premiums—and the chances of your application being rejected—increase with age. Many experts recommend that consumers who want to buy long-term care insurance do so in their 50s, while premiums are still relatively low.

If you are considering long-term care insurance, shop around, not only for rates but also for the features and terms of the policy. For example, does the policy pay for care for all medical conditions? Is there a waiting period before benefits begin, and how long will they last? Will premiums go up?

Learn more in NerdWallet's Long-Term Care Insurance Explained (https://www.nerdwallet.com/article/insurance/long-term-care-insurance) and at LongTermCare.gov.

Medical expenses

To avoid a penalty, be sure to sign up for Medicare during the seven-month initial enrollment period—from three months before the month of your 65th birthday to three months after that month—if you don't have coverage through an employer (yours or your spouse's) or if you favor Medicare over your employer-sponsored plan. After age 65, enroll within eight months of stopping work, even if you receive COBRA or employer-provided retiree health benefits. Learn more at the AARP website (https://www.aarp.org/health/medicare-insurance/info-2020/enrolling-in-medicare.html).

Before you turn 65, look into a Medicare Supplement Insurance (Medigap) policy. This private insurance pays all or part of the deductibles, copayments and coinsurance you are responsible for under Medicare. You won't need a Medigap policy if you are in a Medicare Advantage Plan—an HMO or PPO health plan that provides your basic Medicare coverage plus other coverage to fill the gaps in Medicare coverage—and you might not need one if you have low income and low assets, because your state may have a program that helps.

Before choosing between Original Medicare (possibly combined with a Medigap policy) and Medicare Advantage, you should do some research. Medicare Advantage plans have gained popularity over recent years, largely owing to some cost savings and added benefits (such as vision and/or dental care), but there are disadvantages as well (such as high costs when ill, difficulty switching plans, and a more limited caregiving network). Consumer Reports explains the pros and cons of Medicare Advantage (https://www.consumerreports.org/money/health-insurance/pros-and-cons-of-medicare-advantage-a6834167849/). Learn more about Medigap policies (https://www.medicare.gov/health-drug-plans/medigap/basics) and Medicare Advantage Plans (https://www.medicare.gov/sites/default/files/2024-06/12026-Understanding-Medicare-Advantage-Plans.epub) at Medicare.gov.

If you retire before age 65 (and before Medicare coverage begins), or if you lose your employer-sponsored health coverage and can't find a new job right away, you will need other medical insurance.

Options include COBRA (Consolidated Omnibus Budget Reconciliation Act) (https://www.dol.gov/agencies/ebsa/laws-and-regulations/laws/cobra), which allows you to continue coverage under your employer's plan. You'll have to pay higher premiums than you paid as an employee—how much higher depends on what percentage of the premiums your employer was paying. Contact your employer to find out if you are eligible. COBRA coverage lasts for a maximum of 18-36 months, so this may not be a permanent solution.

If you have a spouse or domestic partner who works, you could try to get onto their plan. The company may or may not pay a portion of your premium.

You also have the option to purchase health insurance from the federal Health Insurance Marketplace (https://www.healthcare.gov) or your state's health insurance exchange (https://www.healthcare.gov/get-coverage/). Under the Affordable Care Act, you may be eligible for a subsidy that makes coverage more affordable. Visit HealthCare.gov for more information and to sign up. Subsidies are income-based and phase out as income increases. If you don't qualify for a subsidy, you could consider purchasing coverage privately.

If you incur medical bills you can't afford to pay, a collector may contact you. If that happens, know your rights under the Fair Debt Collection Practices Act (FDCPA). For information, read National Consumer Law Center's (NCLC) free online guide Surviving Debt (https://library.nclc.org/book/surviving-debt). Or, get help from a nonprofit credit counseling agency online (https://www.nfcc.org) or by calling 800-388-2227.

If your debts become overwhelming, bankruptcy may be an option. While bankruptcy damages your credit, it gives you a fresh start when you need it most. There are many rules and requirements for filing bankruptcy, which you can learn about at the U.S. Courts website (https://www.uscourts.gov/services-forms/bankruptcy/bankruptcy-basics) and in NCLC's Surviving Debt (https://library.nclc.org/book/surviving-debt). Visit the National Association of Consumer Bankruptcy Attorneys website (https://nacba.org/) to find an attorney. The U.S. Trustee Program (https://www.justice.gov/ust/credit-counseling-debtor-education-information) provides information and links to pre-bankruptcy credit counseling.

Grandparents raising grandchildren

Many grandparents today are raising their grandchildren and experiencing the financial challenges that come with supporting a family later in life. If this is your situation, it's very important to avoid derailing your retirement plan:

If you cease contributions or take a large early withdrawal in your 50s or later, there won't be enough time to rebuild your nest egg.

If you need help making ends meet, take advantage of the many financial assistance programs and benefits available for grandfamilies. Visit Grandfamilies.org (*http://www.grandfamilies.org/State-Fact-Sheets*) and AARP (*https://www.aarp.org/relationships/friends-family/info-08-2011/grandfamilies-guide-support.html*) for information about resources for grandparents and other family members raising children.

Your tax situation will most likely change when you begin caring for your grandchildren, thanks to things like the Child Tax Credit and a larger standard deduction. Search IRS.gov to find tax breaks you qualify for.

It is not a good idea to co-sign a student loan for your grandchild. If he or she cannot repay the loan, you will be responsible for it. If you don't make payments on a federal student loan, the government can withhold up to 15% of your Social Security benefits and intercept any tax refunds. If you don't make payments on a private student loan, the lender can sue and get a judgment against you for the outstanding balance plus interest, fees and legal expenses. Whether or not the lender can collect the judgment depends on your income and assets, but it's still a situation that is better avoided.

Estate planning

Estate planning is not just for the wealthy. Regardless of your net worth, you should have at least a basic estate plan in place that answers the following questions:

- Whom do I want to inherit my assets and personal property?
- Whom do I want to take care of my minor children?
- Whom do I want to handle the finances for my minor children?
- Whom do I want to make financial decisions on my behalf if I become incapacitated?
- Whom do I want to make medical decisions on my behalf if I become incapacitated?
- What medical treatment do I want or not want if I am unable to express my wishes?

The answers to these questions should be found in your will, your power of attorney, your health care proxy (medical power of attorney) and your living will.

In addition to expressing your wishes, a key goal of any estate plan should be to avoid probate and reduce taxes. (Probate is the legal process of settling a deceased person's final affairs.) For some people, this may mean establishing a trust.

Although there are many do-it-yourself software programs and guides for estate planning, you should consider consulting an experienced attorney in your state (state laws differ). This is particularly important if you have a more complex situation, such as a blended family, an unmarried life partner or young children. The American Bar Association offers information about the various components of an estate plan (*https://www.americanbar.org/groups/real_property_trust_estate/resources/estate-planning/*) and also provides an online directory of state and local bar associations (*https://www.americanbar.org/groups/lawyer_referral/resources/lawyer-referral-directory/*), through which you can search for an estate (or other) attorney.

If you have email, social media and other electronic accounts (blogs, photo albums, music libraries, cloud storage, etc.), you should plan ahead for access to these accounts and how you want to dispose of your digital assets. Learn more from FindLaw (*https://www.findlaw.com/forms/resources/estate-planning/what-is-digital-estate-planning.html*).

Learn more about estate planning at the National Council on Aging website (*https://www.ncoa.org/adviser/estate-planning/estate-planning-guide-checklist/*).

About Consumer Action

www.consumer-action.org

Through education and advocacy, Consumer Action fights for strong consumer rights and policies that promote fairness and financial prosperity for underrepresented consumers nationwide.

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