The Retirement Puzzle

Cheryl Axon, CFP

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"I'm living so far beyond my income that we may almost be said to be living apart."

Unknown

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CITY OF WICHITA

The Retirement Puzzle

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Even when you are satisfied that you can financially afford to retire, there are many questions that still need to be answered.

Once announced, retirement is difficult to "unannounce."

CHAPTER 1

DEFINITIONS

"What you earn doesn't determine your financial future as much as what you do with what you earn."

Unknown

Starting a book with definitions may be unusual, but this would be the most logical place. After all, to understand this book, you must have a basic foundation of several important words and concepts.

ANNUITY:

An annuity refers to a product offered by an insurance company that provides a monthly benefit for a single lifetime, or a single lifetime and the lifetime of a survivor. The amount of the monthly benefit depends on your contributions, earnings, administrative fees, and life expectancy.

AFTER-TAX DOLLARS:

After-tax dollars is money contributed to a retirement plan after federal income taxes have been withheld. A contribution to a pension plan with "after-tax" dollars does not allow you to reduce income to immediately save on taxes. However, you do receive the benefit of not paying taxes on those earnings until a distribution is received. Since taxes were already paid on the *contributions* during your employment years, you would only pay taxes on the *earnings* at retirement.

CASH SURRENDER VALUE:

Cash surrender value refers to the portion of a life insurance policy that may be redeemed for cash. These policies (with cash surrender values) are typically called universal life, whole life, or variable life policies. They combine pure life insurance protection (term) with a cash value fund that accumulates tax deferred income.

If you redeem a life insurance policy that has a cash surrender value, you must pay taxes on the amount of the cash value that exceeds the total amount of premiums paid.

DEFINED BENEFIT PENSION PLAN:

A *defined benefit* pension plan promises a specific monthly benefit at retirement. The amount of the benefit is typically known in advance and is based on factors such as age, earnings, and years of service.

DEFINED CONTRIBUTION PENSION PLAN:

A *defined contribution* pension plan is a retirement plan in which you and/or your employer contribute a specific amount of money towards retirement. When you become eligible to receive benefits under the plan, your benefit is determined by the cash value of your account.

INDIVIDUAL RETIREMENT ACCOUNT:

An Individual Retirement Account (IRA) is a tax-deductible, tax-deferred retirement plan that may allow you to save additional money for retirement. At the very minimum, an IRA would provide tax-deferred earnings.

PRE-TAX DOLLARS:

Pre-tax dollars refers to the deferral of income to reduce a tax liability. A contribution to a pension plan with "pre-tax" dollars reduces your income before the calculation of income taxes. In other words, if you are in the 28% federal tax bracket and defer $100 using "pre-tax" dollars, you will save $28 in federal taxes. When you withdraw your contributions, taxes will be paid on both the principal and interest.

20 PERCENT WITHHOLDING RULE:

All lump-sum distributions from a qualified retirement plan will have a 20% federal withholding tax subtracted from the amount of the distribution or withdrawal. In other words, if you expect to receive $25,000, the investment manager will withhold $5,000 for federal income taxes.

Investment managers *may* also withhold additional money for state income taxes when they withhold the 20% federal income tax. Note the following example:

20 PERCENT WITHHOLDING RULE

Amount of money distributed:	$25,000
Less: 20% federal tax withheld:	- 5,000
Less: 5% state tax withheld:	- 1,250
Total amount of cash received:	$18,750

Exemptions to the 20% withholding rule include the following:

- Distributions that last at least 10 years or until age 59 ½, whichever is longer;
- Loans;
- Minimum distributions required when you attain age 70 ½;
- Transfers paid directly to another investment manager;
- Amounts that taken together during the year are less than $200.

SECTION 125 FLEX PLAN:

A Section 125 Flex Plan allows you to pay medical and dental insurance premiums, approved unreimbursed medical expenses, and approved dependent care expenses on a "pre-tax" dollar basis. Contributions to the Section 125 Flex Plan will reduce your wages for the calculation of Social Security benefits.

PENALTY TAX:

If you withdraw qualified retirement savings before age 59 ½, you will pay a 10% federal income tax penalty on the total amount withdrawn. This penalty will be in addition to your normal income tax liability.

Exemptions to the penalty tax include the following:

- Distributions made on or after you attain age 59 ½;
- Distributions due to your death or disability;
- Distributions due to separation from service after age 55;
- Distributions that do not exceed certain medical expense amounts;
- Certain distributions that are part of a series of substantially equal periodic payments (not less than annually) made after separation from service for your life (or life expectancy) or joint lives (or life expectancies) of you and your beneficiary;
- Distributions from a nonqualified deferred compensation (Great-West Retirement Services) program.

TEN YEAR AVERAGING:

If you receive a lump-sum distribution from a qualified retirement plan and reached age 50 before 1986, you may elect:

- Capital gains treatment without regard to the phase-out of elective capital gains treatment of distributions for pre-1974 plan participation; and
- Ten-year averaging at 1986 tax rates even though you may not have reached age 59 ½.

You may make this election only once.

APPROXIMATE TAX RATES ON LUMP SUM DISTRIBUTIONS:

Amount of Distribution	10-Year Averaging
$ 25,000	7.2%
$ 40,000	10.5
$ 50,000	11.8
$100,000	14.5
$200,000	18.5
$250,000	20.3
$300,000	22.1
$400,000	25.7

5/10/15 YEAR CERTAIN:

A defined benefit pension plan and a tax-sheltered annuity may provide a payout option that is referred to as 5, 10, or 15 year certain. Choosing a payout option guarantees receipt of a benefit for your lifetime. But, if you select 5-year certain and die at the end of year 4, your beneficiary will continue to receive the same benefit only for the remaining 1 year. If you select 10-year certain and die at the end of year 4, your beneficiary will continue to receive the same benefit only for the remaining 6 years. And if you select 15-year certain and die at the end of year 4, your beneficiary will continue to receive the same benefit only for the remaining 11 years.

Before you enter into a working relationship with a financial planner, make sure you have a very clear understanding of how he or she will be compensated.

FINANCIAL HISTORY

It seems as though income taxes have been around since the beginning of time. Ditto for Social Security and other federal programs. Yet many of these institutions aren't as old as you might think. Here are a few facts on America's economic and social history.

THEN

1913: Income taxes were first authorized. Individuals with a net income over $3,000 paid a 1% tax. One in 271 Americans paid income tax that first year.

1935: President Franklin Roosevelt signed the bill that created Social Security. The original tax was 2% on a maximum taxable income of $3,000.

1935: The average life expectancy was age 63.

1944: Americans' personal savings rate, as a percentage of disposable income, was 25.7%.

1950: For every individual collecting Social Security benefits, there were 16 people paying into the system.

NOW*

1999: The top marginal income tax rate is 39.6%.

1999: The tax rate for Social Security is 6.2% for both you and your employer. Taxes are based on wages up to $72,600.

1999: The average life expectancy is age 75.

1998: Americans' personal savings rate was 0.5%.

1997: There were only 3.3 workers for every retiree collecting Social Security benefits. By the year 2025, this ratio is expected to drop to just two workers for every Social Security recipient.

Many planners concentrate their efforts in a particular profession, income level, age group, or area of planning such as retirement, divorce, or asset management. Make sure your planner meets your specific needs.

- Most recent data available

CHAPTER 2

PLANNING FOR RETIREMENT

It is estimated that people spend 30% more money when they use credit cards rather than cash. Seventy percent of Americans have no money left after paying expenses each month.

The concept of retiring in our 50's and 60's is uniquely American, a product of the amazing prosperous living standards in the United States. Very few countries offer the opportunity to save enough money during 40 years (or less) of employment to provide 20 years (or more) of comfortable living upon termination of that employment. But that comfortable retirement comes with a price tag – discipline and planning.

To retire, an individual must have money. Experts say it will take between 75% and 80% of pre-retirement income to maintain the same standard of living during retirement. Why? Because the expenses of housing, clothing, commuting, child-rearing, and taxes typically go down during retirement and comfortable living should be possible with a 20% to 25 % reduction. If traveling, purchasing a new retirement home in a different part of the country, starting a small business, having adult children move back home or raising grandchildren is part of the plan, then "post-retirement" income may need to be the same as "pre-retirement" income.

Based on a recent study by the American Association of Retired Persons (AARP), current retirees derive only *35%* of their retirement income from Social Security and *15%* from a company pension plan. This alarming statistic points out a blunt fact. If a person wants a comfortable retirement, they must take responsibility for their own future.

THE BASIC RULES

RULE NO. 1

Understand your current financial situation. You must be aware of current income and expenses to understand financial strengths and weaknesses.

RULE NO. 2

Set priorities. Save at least 10% of your income to cover future retirement needs. To meet that objective, saving money must be a top priority.

RULE NO. 3

Establish a three to six month emergency fund to cover living expenses in case of disability or job loss. At the very least, this cash reserve should be coordinated with disability insurance and/or accumulated sick and vacation days so that the two make an adequate emergency fund.

RULE NO. 4

Plan at least three years ahead for major expenses such as a new car. This philosophy prevents large debt payments, alleviates impulse spending, and enables your emergency fund to stay intact.

RULE NO. 5

Plan on spending at least 80% of your pre-retirement income during retirement.

In other words, if you spend $50,000 prior to retirement, you should plan on spending at least $40,000 during the first year following retirement. Just keep in mind that this $40,000 requirement must steadily increase during retirement to keep pace with inflation and maintain the same standard of living.

RULE NO. 6

Take full advantage of deferred compensation savings programs. These programs enable you to save for retirement while deferring compensation until a lower tax bracket is reached.

RULE NO. 7

Begin saving for retirement as early as possible. If you started saving for retirement at age 35, retirement goals would be reached by setting aside 5% to 10% of income on a regular basis. Waiting until the age of 50 requires saving between 20% and 30% of income – and the amount of money saved will still be less than the person who started saving earlier. Note the example on the following page.

RULE NO. 8

Take advantage of dollar cost averaging. This concept enables you to purchase more shares of mutual funds/stocks when prices are low and fewer shares when prices are high. Overall, greater stability of return is received than with a single deposit.

SAVING FOR RETIREMENT

	If start at age 35		If delay to age 51	
Age	Amount Saved	Year-End Value	Amount Saved	Year-End Value
35	$ 2,000	$ 2,160	$ 0	$ 0
36	2,000	4,493	0	0
37	2,000	7,012	0	0
38	2,000	9,733	0	0
39	2,000	12,672	0	0
40	2,000	15,846	0	0
41	2,000	19,274	0	0
42	2,000	22,976	0	0
43	2,000	26,974	0	0
44	2,000	31,292	0	0
45	2,000	35,954	0	0
46	2,000	40,991	0	0
47	2,000	46,430	0	0
48	2,000	52,304	0	0
49	2,000	58,694	0	0
50	2,000	65,500	0	0
51	2,000	72,900	6,000	6,480
52	2,000	80.893	6,000	13,478
53	2,000	89,534	6,000	21,036
54	2,000	98,846	6,000	29,200
55	2,000	108,914	6,000	38,016
56	2,000	119,787	6,000	47,537
57	2,000	131,530	6,000	57,820
58	2,000	144,212	6,000	68,926
59	2,000	157,909	6,000	80,920
60	2,000	172,702	6,000	93,873
61	2,000	188,678	6,000	107,863
62	2,000	205,932	6,000	122,972
63	2,000	224,566	6,000	139,290
64	2,000	244,691	6,000	156,913
65	2,000	**$266,426**	6,000	**$175,946**
	$62,000		$90,000	

Note: Calculations assume an 8% return and show compounding of savings.

WORKING WITH A PLANNER

Few people have the time, desire, or expertise to thoroughly develop a complete financial plan. Hiring a professional can help avoid expensive financial mistakes which could seriously damage your financial health.

Financial professionals look at all aspects of your financial life including income, expenses, taxes, investments, estate planning, and insurance needs. Then, they try to put together a plan to help you reach your financial goals such as investing for retirement or purchasing big ticket items.

To help you with your financial plan, a financial professional will:

- Ask questions to identify your financial goals and determine how much risk you are willing to assume to reach those goals;

- Review your monthly income and expenses, assets and debts, retirement plans, insurance coverage, investments, and other financial information;

- Recommend a course of action based on your goals and financial resources;

- Monitor and review results. If necessary, the planner will adjust your financial plan to account for changes in your job, family, financial goals, or the economy.

Questions to ask a financial professional:

- What is your area of specialization?
- What credentials or professional designations do you have?
- How do you prepare a plan? How detailed is it?
- How often will I meet with you to review my goals and investments?
- Do you charge fees, commissions, or both?
- If I can't afford a full plan, will you work with me to do some limited planning?

And, just a few of the questions a financial professional should ask you:

- How much is your monthly cash flow?
- Do you have a retirement plan?
- What is your current tax situation?

COMMON MISTAKES

Let's face facts. There is a credibility issue with financial planners. There are legions of slippery managers eager to transfer your money into their company with little regard for your personal financial needs.

Be extremely careful. Look for a financial planner in the same manner as you would look for a doctor.

DO NOT USE DOOR-TO-DOOR FINANCIAL PLANNERS:

Never invite door-to-door financial planners into your home. If you do, you may end up buying financial products you already own or products that don't meet your needs. Although these salespeople often claim to be planners, they are rarely qualified to do more than move money from your side of the table to their side of the table.

DO NOT RELY ON THE WRONG KIND OF PROFESSIONAL:

Never use the wrong professional as a financial planner. In other words, don't use an attorney or accountant as a financial planner unless they have the background necessary to create, implement, and monitor a comprehensive financial plan.

By the same token, don't ask a financial planner to act as an attorney or accountant. If a financial planner offers to calculate taxes or write a will or trust, run to the nearest exit. A competent planner will quickly refer you to other professionals who specialize in those areas.

THE ABC'S OF CREDENTIALS

When looking for a financial planner, it is important to examine credentials. A description of various credentials has been listed below.

REGISTERED REPRESENTATIVE:

The title "registered representative" is given to an individual in the financial services field who has passed a Securities and Exchange Commission exam that covers virtually every investment and insurance product available, as well as the extremely stringent laws and regulations that regulate the securities industry. Any professional who claims to be a financial planner should have passed this exam. Without this designation, the qualifications of the individual should be suspect.

CFP and ChFC:

Besides the registered representative title, there are two professional designations generally considered benchmarks of a financial planning professional.

CFP designates a Certified Financial Planner and is the most common and widely recognized designation. To earn this designation, individuals must complete a rigorous cycle of exams covering tax management, employee benefits, retirement planning, estate planning, investment management, and insurance.

You may also see ChFC (Chartered Financial Consultant) on your planner's card. The Solomon S. Huebner School of the American College confers this designation upon individuals who complete a series of exams covering investments, taxes, retirement planning and estate planning.

The ChFC course differs from the CFP program in that it has a broader focus on personal and business insurance.

There are a variety of other designations denoting specialized training. The most common designations are listed below.

CLU:

CLU signifies a Chartered Life Underwriter, a designation bestowed by The American College upon individuals who complete a course of study designed to provide a thorough knowledge of life and health insurance. The CLU curriculum includes a general introduction to comprehensive financial planning, but is not designed to equip the graduate to be more than an insurance specialist.

CFS:

CFS signifies a Certified Fund Specialist and denotes the successful completion of a curriculum that focuses on mutual funds. This curriculum does not cover the fundamental issues of comprehensive financial planning. It is solely a course of study for individuals wanting to understand the finer points of investing in mutual funds.

RIA:

RIA signifies a Registered Investment Advisor. This designation tells you that an individual (or company) has registered with the Securities and Exchange Commission and the National Association of Securities Dealers, and is approved to offer financial planning on a fee basis. This designation has nothing to do with the competency of the planner, it only means the planner can charge for advice and can do so on an hourly or percentage basis.

OTHER ISSUES TO CONSIDER

While the designations listed on the previous pages are important and show desire to improve competency, you need to consider the following issues as well:

THE LENGTH OF TIME THE PLANNER HAS BEEN IN BUSINESS:

The market cycles every seven to ten years. If a planner hasn't been working long enough to work through a "down market cycle," it's not likely he/she will know how to protect you from a market correction. In other words, if a planner is relatively new to the business, make sure he/she has a support system of more experienced planners.

THE PREVIOUS WORK EXPERIENCE OF THE PLANNER:

Let's face facts. You can have all the college and specialty degrees known to mankind and still lack skill and savvy. There's just no substitute for a magna cum laude degree from the University of Hard Knocks. You're better off with someone who has spent ten years or more in the business world – someone who's had a few reality checks – than with someone whose experience is exclusively academic. The ideal planner would be someone with a strong academic background and advanced training combined with real experience in areas such as banking, accounting, or finance.

THE PERSONALITY:

Since you will be virtually entrusting your life savings to this individual, make sure you feel comfortable and confident with your planner. Ultimately, the interview process is going to depend on this subjective issue. When you're interviewing financial planners, be sure to ask questions that will tell you something about their investment philosophy and working style to make sure they're compatible with your own.

THE REFERRALS:

One of the safest ways to find a financial planner is to obtain the names of planners used by friends and relatives. Ask what they did (or did not) like about the service they received. Once you compile a list, interview each planner until you find one with whom you're confident and comfortable.

Less than half of Americans have put aside money specifically for retirement.

GUIDELINES FOR WORKING WITH FINANCIAL PLANNERS

- Do not accept high-pressure telephone solicitations from anyone;
- Be very careful of extremely high returns and profits;
- Be very careful of extremely low-priced stocks;
- Before you invest, ask for written material that explains costs and risks. Read the material and make sure you understand the risks. Do not purchase anything you do not understand;
- Do not risk more than you can afford to lose;
- Do not tie up most of your money in investments that cannot be liquidated for cash. You may not be able to retrieve your money when you need it the most;
- Keep track of your investments and other financial assets. Make sure you know where your money, securities, and other financial assets are located. Get written statements and receipts. Read the information sent to you by your investment manager;
- Broker-dealers, investment companies, investment advisors, transfer agents, and financial planners must be registered with the SEC and must provide brochures that describe their qualifications and possible conflicts of interest. Read this brochure and ask questions;

- Remember, registration with the SEC does not mean the SEC endorses any particular financial advisor;

- Make sure you know the companies your financial advisor represents;

- Ask for licenses held and determine which federal and state government agencies regulate your financial advisor.

Putting away money for retirement is like giving yourself a raise. It's money that gives you freedom when you want it.

Source: Based on suggestions from the U.S. Securities and Exchange Commission

THE FINANCIAL PLAN

Whether you devise your own plan or have a professional prepare a plan for you, its creation and implementation should follow the following six steps.

STEP ONE:

Conduct an honest, thorough assessment of your current financial situation. This assessment must include income, assets, liabilities, debts, trusts, everything. Once you've gathered this information, complete the worksheets in Chapter 10. Conduct a rigorous evaluation to identify your current strengths and weaknesses.

STEP TWO:

Once you understand your current situation, explore and evaluate your goals. Once you've established your goals, prioritize them in order of importance.

Keep in mind that goals must be clear and precise. Quantify them by translating them into real numbers. For example: "I want a $750,000 nest egg that will produce a constant income stream of $45,000 by the age of 65" quantifies a goal.

STEP THREE:

If you have a current plan, analyze and identify the weaknesses. For example, an investment may not be keeping pace with inflation or your life insurance may not meet your needs.

STEP FOUR:

Formulate a new plan that will minimize insecurity even if death, divorce, inheritance or illness changes your situation.

Your new plan should retain the positive elements of your original plan and either eliminate or reinforce the weaker elements. Above all, your plan should position your assets to meet your goals.

STEP FIVE:

Execute your new plan by eliminating the products and/or services that are not consistent with your goals. Determine who will monitor the plan.

STEP SIX:

Determine what events or performance figures warrant a revision of your plan and set up a schedule for periodic review. You need to review your plan on a regular basis to ensure your goals are being met. At the very minimum, review your plan every three months so changes can be made on a timely basis.

KEY COMPONENTS OF A FINANCIAL PLAN

Gather Facts

Determine Goals and Objectives

Analyze Current Situation

Research Options

Discuss Alternatives

Decide to Implement

Monitor

Review

SOME FINAL THOUGHTS ON SPENDING

Make impulse spending difficult:

Leave your checkbook, credit cards, and ATM card at home.

Trim – don't hack – expenses:

If a spending plan doesn't reflect your values and lifestyle, it probably won't work.

Set aside a certain amount of time each week:

Find a specific time to do your budgeting, pay bills, and review financial records. Designate a certain area for this activity.

Build small rewards into your spending plan:

Set aside some extra money each month for enjoying dinner in a restaurant.

Review your goals:

After three months, review your spending plan. You may need to adjust your spending to help reach your goals.

Give it time:

Creating a spending plan often requires developing new financial habits, but once you've mastered them, they'll serve you for a lifetime.

SLASH YOUR DEBT:

Only sending in the minimum on your credit cards?

Here's how much you'll pay and how long it will take to get debt-free.

(based on a 2% minimum payment)

			Interest Rate		
Loan Balance	14%	15%	16%	17%	18%
$1,000 Loan	$1,955	$2,123	$2,329	$2,590	$2,931
Years	13	14	15	17	19
$2,500 Loan	$5,555	$2,123	$6,829	$7,733	$8,931
Years	22	24	27	30	34
$5,000 Loan	$11,555	$12,789	$14,329	$16,304	$18,931
Years	29	32	35	40	46
$7,500 Loan	$17,555	$19,456	$21,829	$24,870	$28,931
Years	33	36	40	45	52
$10,000 Loan	$23,555	$26,123	$29,329	$33,447	$38,931
Years	36	39	44	50	57

DATES TO REMEMBER

Knowing key tax birthdays can help reduce your annual tax bills. Here are some birth dates worth noting:

0

If your child is born during the year, even as late as December 31, you can claim an exemption for your child as a dependent. This comes with one catch. You need to obtain a Social Security number for your child and you must include it on your tax return. If you don't file with the Social Security number, the dependency exemption is denied.

0-12

The good news is you gain tax advantages by contributing to your employer's flexible spending account to cover child care expenses, or you may qualify for a child care credit on your tax return. The bad news is that any investment income over $1,500 that is in the name of your child is taxed at your rate.

13

Once your child reaches age 13, you no longer qualify to take the child care credit. Expenses incurred up until the 13th birthday remain eligible for the credit.

14

At this age, children are taxed at their own rates on investment income.

0-18

If you own your own sole proprietorship, you can pay your child to work for you and avoid paying Social Security and Medicare taxes on their wages. Once they reach age 18, you are required to withhold payroll taxes like you would for any other employee.

59 ½

This is the magic age when you may take money from IRA's and retirement plans without incurring the additional 10% penalty for early distributions. There are exceptions to this rule, but this is the age when you may take distributions for any reason.

65

Once you reach age 65, you qualify for an additional standard deduction and, if certain conditions exist, a tax credit. For tax purposes, you are considered age 65 on the day before your 65th birthday.

70 ½

At this age you are required to begin distributions from your traditional IRA. If you have a Roth IRA, this rule does not apply. If you have a retirement plan with your employer, you're still working, and you do not own more than 5% of a company, you can delay distributions from the plan even if you are 70 ½.

Since you will ultimately be responsible for making the decision about selecting a financial planner, you should obtain as much information as possible to make an educated choice. Interview several financial planners in person and obtain the same comparative information on each planner you interview.

CHAPTER 3

SOCIAL SECURITY

"During the next three years…you will pay 1 cent for every dollar you earn, and at the same time your employer will pay 1 cent for every dollar you earn, up to $3,000 a year. Beginning in 1940, you and your employer will each pay 1 ½ cents for each dollar you earn, up to $3,000 a year. This will be the tax for three years and then, beginning in 1943, you and your employer will each pay 2 cents for every dollar you earn for the next three years. Beginning in 1949, twelve years from now you and your employer will each pay 3 cents for each dollar you earn, up to $3,000 a year. This is the most you will ever pay."

Security in Your Old Age
(first publication of the Social Security Board)

SOCIAL SECURITY

TYPE OF PLAN: Supplemental Income

Social Security has two parts:

- Old Age, Survivor and Disability Insurance (OASDI);
- Medicare hospital insurance.

AMOUNT OF TAX:

Commissioned officers for the City of Wichita do not participate in the OASDI program. However, if you have other employment, you will pay 6.2% of those gross wages (up to a maximum of $87,900 [in 2004] in wages) into the OASDI program and an additional 1.45% of your gross wages (no maximum) into the Medicare program. Your employer will match those amounts.

Commissioned officers do participate in the Medicare program. You will pay 1.45% of your gross wages for this program and the City of Wichita will match that amount on your behalf.

VESTING:

You must work in a covered occupation for forty (40) quarters or ten (10) years to qualify for Social Security retirement benefits.

RETIREMENT AGE:

If you were born before 1938, normal retirement age is 65. You may retire as early as age 62 with reduced benefits.

As indicated on the following chart, full retirement age will gradually rise for individuals born in later years, leveling off at age 66 for individuals born in 1943 through 1954, and age 67 for individuals born after 1959.

SOCIAL SECURITY RETIREMENT AGES

Year of Birth	Normal Retirement Age Year/Month	Age 62 Benefit
1938	65/2	79.2%
1939	65/4	78.3
1940	65/6	77.5
1941	65/8	76.7
1942	65/10	75.8
1943-1954	66/0	75.0
1955	66/2	74.2
1956	66/4	73.3
1957	66/6	72.5
1958	66/8	71.7
1959	66/10	70.8
1960 and after	67/0	70.0

As long as you work, you must continue to pay Social Security taxes. This remains true even if you receive Social Security benefits while continuing to work. Age is irrelevant.

WORKING PAST NORMAL RETIREMENT AGE:

If you continue working for wages past the age of 65, your benefit will increase for each year worked, up to age 70.

AMOUNT OF YOUR BENEFIT:

Your Social Security retirement benefits are based on the average of your 35 highest salary years. You earn credit for each quarter of a year in which you work and pay Social Security taxes.

Some estimates show that Social Security will provide 60% of the retirement needs for a minimum wage earner, but only 28% of the retirement needs for a person who earns the maximum Social Security wage.

Benefits automatically increase to keep pace with inflation. This increase is the rate of inflation based on the Consumer Price Index – in the third quarter (July-September) of the previous year. The increase is announced in October and begins in January.

SPOUSE'S BENEFIT:

A spouse is entitled to one-half of the primary worker's benefit. If a spouse has also earned Social Security credit, he/she will receive either his/her own benefit *or* one-half of the primary worker's benefit, whichever is larger.

TAXABILITY OF BENEFITS:

Before describing the taxability of benefits, you need to be aware of several definitions.

"Income" may be defined as dividends, capital gains, interest, Social Security benefits, veteran and other government benefits, private pension benefits, annuities, gifts or inheritances, trust income, certain types of rental income, and moving expenses. *Your "income" determines the taxability of your benefit.*

"Earnings" incorporates all wages received for services rendered and net earnings from self-employment for that year. Wages include bonuses, commissions, fees, paid vacations, severance pay, and certain non-cash compensation such as meals or living quarters. *Your "earnings" determine the reduction in the Social Security benefits.*

"Provisional Income" is a unique term and may be defined as adjusted gross income plus one-half of your Social Security benefit.

Beginning with 1994 tax returns, you must include 85% of your Social Security benefit in your gross income if your provisional income exceeds $34,000 for single taxpayers and $44,000 for married taxpayers filing jointly.

COMMENT:

If you decide to receive reduced benefits at age 62, keep in mind that those benefits will be permanently reduced. In addition, if your spouse applies for benefits based upon your earnings, his/her benefit will also be permanently reduced.

For an estimate of future retirement benefits, call 1-800-772-1214 and ask for Form SSA-7004-PC. This form enables you to receive an estimate of your future retirement benefits and verify Social Security earnings. If you do not agree with the figures, contact the local Social Security office as soon as possible.

Only 1% of the nation's planning firms are structured as "fee-only." The other 99% work on commission and/or a percentage of assets under management.

WORKING DURING RETIREMENT

If you work (even part-time) after beginning to receive benefits, those benefits may be reduced.

On April 7, 2000 President Clinton signed Public Law 106-182, Senior Citizens' Freedom to Work Act of 2000. The provisions in this law have been incorrectly stated through many information sources. It is not a bill that says, "at age 65 you can earn as much as you want without having to pay back your Social Security benefits," although this statement is close.

The Act changes the "age 70" provisions for unlimited earnings to "retirement age" as defined in the Social Security Code. The key here is "retirement age." This is defined as the age when you can receive full Social Security benefits. This change in age (see page 31) for receiving your full Social Security benefit is when you can work as much as you want without encountering a reduction in your benefit.

Don't hesitate to ask for a free, no-obligation, initial consultation when looking for a financial planner.

DISABILITY INCOME

You are entitled to disability benefits if you meet the following criteria:

- You are insured for disability benefits;
- You are under the age of 65;
- You have been disabled for 12 months, or have a disability which is expected to result in death;
- You have filed an application for benefits;
- You have completed a five-month waiting period.

For the most part, you are insured for disability benefits if you are fully insured and have worked under Social Security for at least five of the last ten years (20 out of 40 quarters) just before becoming disabled.

Keep in mind that Social Security defines disability as "the inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months. A person must not only be unable to do his previous work but cannot, considering age, education, and work experience, engage in any other kind of substantial work which exists in the national economy. It is immaterial whether such work exists in the immediate area, or whether a specific job vacancy exists, or whether the worker would be hired if he/she applied for work." Benefits will cease in any of the following situations.

- The second month after the month in which the disability ceases;
- The month before the month you attain Normal Retirement Age;
- The month before the month in which you die.

LIFE INSURANCE

In the event of your death, your spouse would be entitled to a survivor's benefit if all of the following conditions are met:

- You (the deceased worker) must be fully insured at the time of death; and
- Your spouse must be at least 60 years of age (age 50 if disabled); and
- Your spouse is not entitled to a retirement benefit that is equal to, or larger than your primary insurance amount; and
- Your spouse has filed an application for benefits; and
- Your spouse has not remarried.

In addition, one of the following conditions must be met:

- You and your spouse must have been married at least 9 months prior to your death; or
- Your spouse is the biological mother or father of your child; or
- Your spouse legally adopted your biological child during your marriage and before your child reached the age of 18; or
- You legally adopted the biological child of your spouse during your marriage and before the child reached the age of 18; or
- You and your spouse were legally married when you, as a couple, adopted a child under the age of 18.

Your spouse, who is eligible to receive a widow(er)'s benefit, may apply for a reduced benefit between the age of 60 and Normal Retirement Age.

Your spouse may also wait until Normal Retirement Age to receive a full widow(er)'s benefit.

BENEFIT AMOUNT FOR A SURVIVING SPOUSE:

If your spouse is of Normal Retirement Age when benefits commence, the monthly benefit would be 100% of the amount you would have received upon your retirement plus an additional amount if you worked past Normal Retirement Age.

If you were actually receiving retirement benefits that began before Normal Retirement Age, your spouse would be entitled to an amount equal to the reduced benefit you would have received had you lived. This benefit would not be less than 82.5% of your Primary Insurance Amount.

WHEN BENEFITS END FOR SURVIVING SPOUSE:

Benefits will end when one of the following conditions are met:

- Your spouse dies;
- Your spouse becomes entitled to a retirement benefit which is as large, or larger than, your Primary Insurance Amount.

AMOUNT OF BENEFIT FOR CHILD OF DECEASED WORKER:

A child's benefit is equal to 75% of your Primary Insurance Amount. However, because of the family maximum rule, the amount may be less.

WHEN BENEFITS END FOR CHILD OF DECEASED WORKER:

Benefits end when one of the following conditions are met:

- The child dies;
- The child reaches the age of 18, or age 19 if full-time elementary or secondary school student;
- The child marries.

LUMP SUM DEATH BENEFIT:

A lump sum death benefit of $255 may be paid if the following conditions are met:

- You and your spouse lived in the same household at the time of death; and
- Your spouse was eligible to receive Social Security benefits based on your wage record for the month of death; and
- Your eligible children were eligible to receive Social Security benefits based on your wage record for the month of death.

Be wary of financial planners who push a particular financial product at the expense of your real needs.

CHAPTER 4

POLICE AND FIRE RETIREMENT SYSTEM

"Money doesn't always bring happiness. People with ten million dollars are no happier than people with nine million dollars."

Hobart Brown

TYPE OF PLAN:

The Police and Fire Retirement System was established January 1, 1965 and provides retirement, survivor, death, and other benefits for commissioned Police and Fire Officers. The Police and Fire Retirement System is a defined benefit pension plan.

MEMBERSHIP:

Membership in the Police and Fire Retirement System includes commissioned Police and Fire Officers employed by the City of Wichita and Safety Officers at the Wichita Airport.

EMPLOYEE CONTRIBUTIONS:

Effective August 7, 1999 the following contributions must be made by each participant:

- Participants in Plan A will contribute eight percent (8%) of salary;
- Participants in Plan B will contribute six percent (6%) percent of salary;
- Participants in Plan C-79 will contribute seven percent (7%) of salary.

SALARY:

Salary includes the following types of pay:

- Base rate of pay;
- Longevity pay;
- Educational pay;
- Acting pay;
- Shift pay;
- EMT pay;
- Kelly Day pay;
- Holiday pay (except for 24 hour fire employees);
- Hazard pay.

For the purpose of making contributions into your retirement plan, salary *does not* include the following:

- Overtime pay;
- Clothing allowance; or
- Other similar types of payment.

EMPLOYER CONTRIBUTIONS:

The City of Wichita contributes the remaining amount of money necessary to provide actuarial reserves for your earned benefits, unfunded accrued liabilities, and expenses incurred during the administration of the Plan(s).

VESTING:

Vesting describes the percent of assts you own. You are always 100% vested in your own contributions. However, to be eligible for a retirement benefit, you must complete 10 years of service.

RETIREMENT AGE:

You may retire after 20 full years of actual Service, regardless of age. If you have at least ten years of credited service, you may retire as early as age 55.

Keep in mind that unless you complete 20 years of service, you will *not* have survivor benefits.

DISTRIBUTION OF CONTRIBUTIONS:

If you withdraw from Service prior to retirement, you may receive your accumulated contributions in a lump sum distribution – including interest at the rate of 5% per year on your contributions. However, keep in mind that interest is credited to your account as of the last day of each year. Consequently, if you withdraw from Service and request a distribution on September 1, you would not earn interest for that year.

Also keep in mind that a lump sum distribution will terminate all rights and benefits in the Retirement System.

RE-EMPLOYMENT AFTER TERMINATION:

If you terminate employment and receive a lump sum distribution, you will be considered a new Member under Plan C-79 upon re-employment *and* completion of at least 3 years of Service following re-employment. If you wish to regain your previously forfeited Service credits, you must repay the total amount of money you received, including interest, from the date of refund to the date of repayment.

Interest is currently calculated at 7% per annum, compounded annually.

If you terminate employment, leave your contributions in the Retirement System, and are rehired as a Police or Fire Officer, you will be classified as a Member under Plan C-79.

ROLLOVER CONTRIBUTIONS:

Rollover contributions and/or direct rollovers of distributions after December 31, 2001 will be accepted for the purchase of Prior or Future Service Credit. The Police and Fire Retirement System will accept the following rollovers:

- Direct rollover from eligible employer contributions. In other words, if your previous employer contributed to a pension plan on your behalf, you may use those contributions to purchase Prior or Future Service Credit with the Police and Fire Retirement System;
- Direct rollover from participant contributions. If you contributed to a pension plan with a former employer, you may use those contributions to purchase Prior or Future Service Credit with the Police and Fire Retirement System.

Please contact Pension Management for additional information on purchasing Prior or Future Service Credit.

The retirement plans that will be accepted under the direct rollover provision are eligible distributions from the following types of retirement plans:

- A qualified retirement plan described in Section 401(k) or 403(b) of the Internal Revenue Code. A 401(k) plan includes the retirement plans available to corporate employees;
- An annuity contract described in Section 403(b) of the Internal Revenue Code. A 403(b) plan includes the tax-sheltered annuities available to education employees;
- An eligible plan under Section 457(b) of the Internal Revenue Code which is maintained by a state, political subdivision of a state, or an agency or instrumentality of a state or political subdivision of a state. A 457(b) plan would include your deferred compensation program with Great-West Retirement Services – or any other deferred compensation program with another governmental employer.

INVESTMENT OF PLAN ASSETS:

The investing and reinvesting of monies in the Retirement System is overseen by an investment committee comprised of representatives elected from the Board of Trustees from the Wichita Employees' and the Wichita Police and Fire Retirement Systems.

RETIREMENT BENEFITS:

If you participate in Plan A or Plan B, you may retire after 20 years of service and receive a retirement benefit.

If you participate in Plan C-79 you may retire when you meet the following criteria.

- 20 years of service and age 50; or
- 30 years of service, regardless of age .

If you participate in Plan C-79 and have 20 years of Service but have not reached the age of 50, you may terminate Service as a Police or Fire Officer and leave your contributions in the Retirement System to defer payment of your retirement benefit until you attain age 50. If you have between 10 and 20 years of Service, you may terminate employment and leave contributions in the Retirement System until eligible to receive retirement benefits at age 55.

CALCULATION OF RETIREMENT BENEFITS:

If you participate in Plan A or Plan B and if you have 20 years or more of Service, you may make application for retirement. Your monthly benefit will be an amount equal to 50% of your Final Average Salary at the time of your retirement – plus an additional 2 ½% per year for each year above 20 years that you remain in Service, up to a maximum of 75% of Final Average Salary.

CALCULATION OF RETIREMENT BENEFIT

Plans A and B

(Example reflects 20 years of Service)

	Example	**Yourself**
a. Final Average Salary	$40,000	$_____
b. 50% of Final Average Salary	$20,000	$_____
c. Annual Benefit (line b)	$20,000	$_____
d. Years of Service	20	_____
e. 2 ½% of Final Average Salary	$1,000	$_____
f. Number of Years over 20	0	
g. Multiply line e and line f	$0	$_____
h. Annual Retirement Benefit (add line c and line g)	$20,000	$_____

Your maximum benefit cannot exceed 75% of Final Average Salary – which, in this example, would be $30,000.

i. Annual Benefit Allowable	$20,000	$_____

If you participate in Plan C-79 and have 20 years or more of Service and have reached age 50 year, you may make application for retirement.

Your monthly benefit will be an amount equal to 50% of your Final Average Salary at the time of your retirement, plus an additional 2 1/2% per year for each year above 20 years, up to a maximum of 75% of Final Average Salary.

CALCULATION OF RETIREMENT BENEFIT

Plan C-79

(Example reflects 35 years of Service)

	Example	Yourself
a. Final Average Salary	$40,000	$_____
b. 50% of Final Average Salary	$20,000	$_____
c. Annual Benefit (line b)	$20,000	$_____
d. Years of Service	35	_____
e. 2 ½% of Final Average Salary	$1,000	$_____
f. Number of Years over 20	15	
g. Multiply line e and line f	$15,000	$_____
h. Annual Retirement Benefit (add line c and line g)	$35,000	$_____

Your maximum benefit cannot exceed 75% of Final Average Salary – which, in this example, would be $30,000. Therefore, you would receive $30,000.

i. Annual Benefit Allowable	$30,000	$_____

FINAL AVERAGE SALARY:

Final average salary means the average annual Salary for the 3 highest consecutive years of Service within the last 10 years of Service as a Member. Final average salary is computed on the basis of the 78 consecutive pay periods within which your Salary is the highest.

POST-RETIREMENT ADJUSTMENTS:

Upon completion of 36 full calendar months' retirement, the monthly retirement benefits payable to you or the monthly retirement benefits payable to your spouse or minor children will be increased 2% per year based on the original benefit. This increase will not be compounded.

POST-RETIREMENT ADJUSTMENT

Original retirement benefit = $25,000

Increase after 3 years of retirement = $500 (2% of $25,000)

Annual benefit after 3 years of retirement = $25,500

Increase after 4 years of retirement = $1,000 (4% of $25,000)

Annual benefit after 4 years of retirement = $26,000

RE-EMPLOYMENT OF RETIREES:

If you are receiving a retirement benefit and are re-employed as a commissioned Police or Fire Officer with the City of Wichita, or in a non-commissioned position under the Wichita Employees' Retirement System, your retirement benefit will be suspended and no benefit payment will be made to you during the time you are employed. You will, however, be able to participate in the appropriate retirement system and will accrue additional Service credit (if your retirement benefit is less than the maximum benefit of 75% of your final average salary).

Upon your termination, payment of your retirement benefit will be resumed. You may, however, be employed in part-time, an advisory or consultant capacity on an independent contractor basis without having your pension benefits suspended.

Keep in mind that under no circumstance will the total retirement benefit payable to you as a retired member exceed an amount equal to 75% of your Final Average Salary, regardless of whether the source of the benefit is the Wichita Employees' Retirement System or the Police and Fire Retirement System.

DEFERRED RETIREES:

A Deferred Retiree means a vested Member who has withdrawn from Service, has not received (or requested) a refund of contributions and any applicable interest, and is eligible to receive retirement benefits at a future date.

RETIREMENT BENEFIT FOR A DEFERRED RETIREE:

If you have at least 10 years of Service but less than 20 years of Service, you may terminate employment and become a Deferred Retiree by electing to leave your contributions and interest, if any, in the Retirement System. If you leave your contributions and interest in the Retirement System until you reach the age of 55, you will be entitled to a retirement benefit. Please check with Pension Management for a determination of this benefit.

INDEXING OF DEFERRED PENSIONS:

If you have elected to defer your retirement benefit, the benefit will be indexed between 0%-5.5% annually, based on the National Average Earnings for the preceding calendar year.

SICK LEAVE CREDIT:

You may use your accumulated unused sick leave to receive additional retirement service credit as long as you have already met the minimum age and service requirements for retirement. Accumulated sick leave provides service credit at the same rate as actual service, which is 2.5% per year, or 0.2083% per month.

The amount of sick leave needed for each month of service credit is computed as follows:

SICK LEAVE NEEDED FOR SERVICE CREDIT

(40-hour work week)

Forty (40) hours per week x fifty-two (52) weeks per year	2,080 hours
Less eleven (11) holidays (11 days x 8 hours)	- 88 hours
Less twenty-two (22) days vacation leave (22 x 8 hours) *	- 176 hours
Total sick leave hours for one year of service credit	1,816 hours
Total sick leave hours for one month of service (divide 1,816 by 12)	151.55 hours

*The number of Vacation Leave days is the amount **you** earn in one year.

SICK LEAVE NEEDED FOR SERVICE CREDIT

(24-hour shift)

Fifty six (56) hours per week x fifty-two (52) weeks per year	2,912 hours
Less two (2) undesignated holidays (2 days x 12 hours)	24 hours
Less eleven (11) holidays (11 days x 12 hours)	- 132 hours
Less twenty-five (25) days vacation leave (25 x 12 hours) *	- 300 hours
Less four (4) Kelly days (2 x 24 hours)	- 96 hours
Total sick leave hours for one year of service credit	2,360 hours
Total sick leave hours for one month of service (divide 2,360 by 12)	196.67 hours

*The number of Vacation Leave days is the amount **you** earn in one year.

SICK LEAVE NEEDED FOR SERVICE CREDIT

(42.5 hour work week)

Forty-two and one half (42.5) hours per week x 52 weeks per year	2,210 hours
Less eleven (11) holidays (11 days x 8.5 hours)	- 93.5 hours
Less twenty-five (25) days vacation leave (25 x 12 hours) *	- 212.5 hours
Total sick leave hours for one year of service credit	1,904 hours
Total sick leave hours for one month of service (divide 1,904 by 12)	158.68 hours

*The number of Vacation Leave days is the amount **you** earn in one year.

Your accumulated sick leave credit will be added to your actual Service Credit at the time of your retirement EXCEPT in the case of Service-Connected Disability retirement, where there is a 50% maximum for "Service-Connected disease" and a 75% maximum for "Service-Connected injury." In the case of a Service-Connected Disability retirement, your accumulated sick leave will be credited at the time your benefit is recomputed.

FUNERAL BENEFIT:

Your designated beneficiary will be paid a funeral benefit of seven hundred fifty dollars ($750.00) upon your death.

If you have questions, need clarification, or want to obtain more information, please contact Pension Management.

BACKWARD DEFERRED RETIREMENT OPTION PLAN (DROP)

At the time you apply for retirement benefits, you may also elect a Backward DROP benefit if your actual service and age exceeds the minimum retirement eligibility. In selecting this benefit, you must select an effective Backward DROP date and you must be eligible to receive a Service retirement benefit on your effective Backward DROP date.

Keep in mind that a Backward DROP election cannot be made until you have 30 days or less until your final day in Service.

If you have less than 30 years of actual Service, your unused Sick Leave may be added to your Service Credit – however, your unused Sick Leave will have no effect on Final Average Salary.

Your monthly retirement benefit is calculated as of your effective Backward DROP date and is payable to you when you withdraw from Service.

Your DROP benefit is calculated by:

- Multiplying your monthly retirement benefit;
- Times the number of months selected by you as the backward DROP period;
- Plus any applicable post-retirement adjustment;
- Plus interest at an annual rate of 5%, compounded monthly.

Your Backward DROP benefit will be paid to you from 30 to 90 days after you withdraw from Service, depending on when you submit the necessary paperwork. You may request payment of your Backward DROP benefit in the following manner:

- Cash payment to you, less 20% withholding as required by IRS;
- Direct rollover to a deferred compensation account, qualified pension plan, or IRA;
- Combination of a cash payment and direct rollover.

CALCULATION OF DROP BENEFIT

You have made application for retirement. When your earned and unused vacation are extended, your last day on the payroll is July 16, 2003 and you will have 23 years and 6 months of Service. You also elect a 27-month Backward DROP benefit. Since you are 52 years and 3 months old, this is maximum amount of time you can utilize since you are not eligible to receive a Service retirement prior to age 50 under Plan C-79.

Your retirement benefit will be calculated as of your effective DROP date. Your Service credit as of April 17, 2001 (27 months prior to July 16, 2003) was 21 years and 3 months. You have 8 months of unused sick leave credit, which will increase your Service credit to 21 years, 11 months. Your final average salary is $3,173.28 per month.

Retirement benefit = 21 years x 2.5% + 11 months x 0.2083% = 54.7913%
54.7913% x Final Average Salary of $3,173.28 = $1,738.68 monthly benefit

Your DROP benefit is a lump sum calculated as if you were retired on the effective DROP date and began receiving a monthly retirement benefit.

Partial month from April 17, 2001 through April 30, 2001	$ 811.44	plus
Months 1-26 of the DROP period	$1,738.68	plus
Partial month July 1, 2003 to July 16, 2003	$ 897.33	plus
5% annual interest compounded monthly.		

Based on the above calculation, your DROP benefit will be approximately $49,644.

On August 1, 2003 you will receive your first retirement benefit payment of $841.35. On September 1, 2003 you will receive your first full benefit payment of $1,738.68. Every year, you will receive an additional post retirement adjustment of $34.77, which reflects a 2% increase in your original retirement benefit. This adjustment is not compounded.

MILITARY LEAVE OF ABSENCE

This section provides an overview of the procedures that are followed if you have been granted a Military Leave of Absence to perform duty in the uniformed services. You are entitled to this benefit under the provisions of the Uniformed Services Employment and Re-employment Rights Act (USERRA).

Retirement benefits, for vesting or accrual of benefits, are not forfeited during an approved Military Leave of Absence. However, your contributions to the Retirement System, as well as the contributions of the City, must be "made-up" upon your return to accrue Service credit towards retirement.

Upon your return to Service with the City, Pension Management will notify you to make a determination about "making-up" these contributions as well as the amount of money that must be put back into the Retirement System. If you wish to "make-up" these contributions, the additional contributions must be made during a period of time equal to 3 times the Military Leave, not to exceed 5 years.

If you do not wish to "make-up" these contributions, simply indicate on the appropriate form and return the form to Pension Management.

If you are on an approved Military Leave for annual training, required training, or normal drills, you may:

- Schedule your Vacation, Personal Holiday and/or Well Day (if available) to coincide with your training;
- Combine any of these leaves with Military Leave without pay;
- Take the entire leave as Military Leave without pay.

If you are on Military Leave, except for annual training, required training, or normal drills, you may request a lump sum payment for unused accrued vacation or request that your balance remain intact until you return to work.

For absences of less than 30 days, health and dental benefits will continue to be in force. However, if you do not have enough accrued sick and/or vacation leave to remain in pay status, it will be your responsibility to make arrangements for payment of your portion of the premium. For absences of 31 days or more, your health and dental coverage will cease unless you elect to pay the entire premium. However, keep in mind that continuation of your health and dental insurance may not be necessary because you will receive military health and dental benefits while on active duty. When you return to work, health and dental insurance will be reinstated with no waiting period or exclusions.

The following benefits will cease while on military leave for 31 days or more:

- Life Insurance;
- Voluntary Accidental Death and Dismemberment;
- Long-Term Disability;
- Long-Term Care.

For additional information, please contact Pension Management regarding Retirement System contributions and the Personnel Department regarding other employee benefits.

Keep in mind that there is a difference between Final Salary and Final Average Salary.

Final Salary is salary based on a particular point in time.

Final Average Salary is the average annual Salary for the three (3) highest consecutive years of Service within the last ten (10) years of Service as a Member. Final average salary is computed on the basis of the seventy-eight (78) consecutive pay periods in which Salary is the highest.

CHAPTER 5

DEFERRED COMPENSATION

"Wealth consists in not having great possessions, but in having few wants."

Epicurius, Greek philosopher and author

Deferred compensation is an excellent way to save for retirement. Individuals who participate derive two primary benefits:

- Lower taxable income;
- Accumulation of tax-deferred assets.

Note the following example:

LONG-TERM SAVINGS

	Account Value If $200 was saved each month for 20 years, the account balance would be:		**Monthly Payment** If an equal amount were withdrawn for 20 years, the monthly payment would be:	
	@ 8%	@10%	@8%	@10%
Tax-Deferred Investment	$115,867	$152,751	$969	$1,472
Taxable Investment	$ 84,819	$109,349	$709	$1,055

GREAT-WEST RETIREMENT SERVICES

TYPE OF PLAN:

The City of Wichita has approved Great-West Retirement Services to be the provider of your non-qualified deferred compensation program through September 30, 2006.

Participation in this plan is voluntary. The City of Wichita will not contribute to the plan on your behalf.

VESTING:

Vesting describes the percent of assets you own. You are always 100% vested in your own account.

CONTRIBUTIONS:

You may generally defer up to $13,000 during 2004.

INVESTMENTS:

Great-West Retirement Services offers an array of investment options from which to choose. These options range from a diversified fixed income fund to a growth fund. Contributions and/or account balance may be distributed among any of the available options. Please refer to the material provided by Great-West Retirement Services for additional information.

TAXABILITY OF DISTRIBUTIONS:

A distribution, which consists of deferred compensation and earnings, will be taxed at the federal and state levels.

WITHDRAWALS:

Contributions and earnings may be withdrawn upon retirement or termination, either in a lump sum distribution or a series of payments. At the time of distributions, federal and state income tax liabilities will be incurred. However, the distribution is not subject to the 10% tax penalty, nor is the distribution subject to the withholding rule.

AMOUNT OF YOUR BENEFIT:

The amount of money in your account will depend on contributions plus earnings.

PRE-RETIREMENT CONSIDERATIONS:

If the maximum amount of money has not been contributed in prior years, you may take advantage of Catch-Up provisions. For 2004, the limits have been listed below:

- "Pre-Retirement" Catch-up Limit $26,000
- "Age 50" Catch-up $ 3,000

The Pre-Retirement Catch-up Limit may be used only during the last 3 years prior to attaining your Normal Retirement Age. Keep in mind that you cannot use the "Pre-Retirement" Catch-up Limit at the same time you use the "Age 50" Catch-up.

TO APPLY FOR A DISTRIBUTION/WITHDRAWAL:

You should contact Robert Bachman in Personnel (268-4551 or email robert.bachman@gwl.com) to obtain the proper forms.

Upon termination or retirement, you will need to make a determination regarding your account. The chart on the following page will provide a brief description of the available options.

RETIREMENT/TERMINATION OPTIONS

Leave money in plan	Money continues to grow on a tax-deferred basis.
Withdraw your money	Amount subject to ordinary income taxes at the federal and state level. If under the age of 59 ½, NOT subject to the ten percent (10%) tax penalty.
Transfer to IRA or another qualified plan if the plan of your new employer accepts the transaction.	If you do not take possession of the money, not subject to federal or state income taxes. Money continues to grow on a tax-deferred basis.

UNFORESEEABLE EMERGENCY:

If you have a severe financial hardship resulting from a sudden illness, disability, or accidental property loss, you may be able to receive an unforeseeable emergency withdrawal.

This withdrawal must be approved and authorized by the Deferred Compensation Management Board and is subject to ordinary income taxes in the year you receive the distribution.

As you approach retirement, it is important to have a realistic estimate of the expenses you will encounter during retirement. Don't forget to include travel expenses, Christmas and birthday gifts, and entertainment.

WORKSHEET
CURRENT VALUE

To determine the *estimated* future value of your deferred compensation account, follow the instructions listed below.

STEP ONE: Determine the future value of your account.

Current Value of your Account: _____

Locate the factor on the following chart that corresponds with the number of years you plan to continue working for the City of Wichita and the annual yield you anticipate earning on your account. Multiply the factor and the current value of your account together. The answer will provide you with the future value of your current account balance.

For example: Your account is currently worth $18,000. You plan on working another ten years and you anticipate earning an annual yield of 8%. The following chart indicates that your factor would be 2.21965. If you multiply the $18,000 by the factor 2.21965, you determine that the future value of your current deferred compensation account will be worth an estimated $39,953.70 in ten years.

Future value of your account: _____

WORKSHEET

CURRENT BALANCE

Years	6%	7%	8%	9%	10%	11%	12%
1	1.06150	1.07200	1.08300	1.09350	1.10450	1.11550	1.12600
2	1.12678	1.14918	1.17289	1.19574	1.21992	1.24434	1.26788
3	1.19608	1.23193	1.27024	1.30754	1.34740	1.38806	1.42763
4	1.26964	1.32062	1.37567	1.42980	1.48821	1.54838	1.60751
5	1.34772	1.41571	1.48985	1.56349	1.64372	1.72722	1.81006
6	1.43061	1.51764	1.61351	1.70967	1.81549	1.92671	2.03812
7	1.51859	1.62691	1.74743	1.86953	2.00521	2.14925	2.29493
8	1.61198	1.74405	1.89246	2.04433	2.21476	2.39749	2.58409
9	1.71112	1.86962	2.04954	2.23547	2.44620	2.67440	2.90968
10	1.81635	2.00423	2.21965	2.44449	2.70182	2.98329	3.27630
11	1.92806	2.14854	2.40388	2.67305	2.98417	3.32786	3.68912
12	2.04663	2.30323	2.60340	2.92298	3.29601	3.71223	4.15394
13	2.17250	2.46906	2.81949	3.19628	3.64044	4.14099	4.67734
14	2.30611	2.64684	3.05350	3.49513	4.02087	4.61928	5.26669
15	2.44794	2.83741	3.30694	3.82192	4.44105	5.15280	5.93029
16	2.59848	3.04170	3.58142	4.17927	4.90514	5.74795	6.67751
17	2.75829	3.26070	3.87868	4.57003	5.41773	6.41184	7.51887
18	2.92793	3.49547	4.20061	4.99733	5.98388	7.15241	8.46625
19	3.10799	3.74715	4.54926	5.46458	6.60920	7.97851	9.53300
20	3.29913	4.01694	4.92685	5.97552	7.29986	8.90003	10.73415
21	3.50203	4.30616	5.33578	6.53423	8.06269	9.92798	12.08666
22	3.71741	4.61621	5.77865	7.14518	8.90524	11.07467	13.60958
23	3.94603	4.94857	6.25827	7.81326	9.83584	12.35379	15.32438
24	4.18871	5.30487	6.77771	8.54380	10.86369	13.78065	17.25525
25	4.44631	5.68682	7.34026	9.34264	11.99894	15.37232	19.42942

WORKSHEET
MONTHLY CONTRIBUTIONS

STEP TWO: Determine the future value of your monthly contributions.

Current Monthly Contributions: _____

Locate the factor on the following chart that corresponds to the number of years you will continue to make monthly contributions and the annual yield you anticipate earnings on those contributions. Multiply the amount of your monthly contribution and this factor together. The answer will provide you with the total future value of your *monthly contributions.*

For example: You contribute $100 each month into your deferred compensation account. You anticipate working another ten years and you estimate you will earn an annual yield of 8%. The following chart indicates that your factor would be 182.23876. Multiply this factor and your monthly deposit of $100 together. The future value of your *monthly contributions* will be $18,223.88.

Future value of your contributions: _____

WORKSHEET
MONTHLY CONTRIBUTIONS

Years	6%	7%	8%	9%	10%	11%	12%
1	12.39291	12.45980	12.52024	12.59312	12.66894	12.73822	12.80729
2	25.54179	25.81057	26.05461	26.35111	26.66178	26.94770	27.23470
3	39.49276	40.11588	40.68527	41.38172	42.11687	42.79837	43.48718
4	54.29473	55.44401	56.50101	57.80265	59.18702	60.47980	61.79560
5	69.99962	71.86810	73.59783	75.74252	78.04101	80.20343	82.42003
6	86.66251	89.46652	92.07949	95.34183	98.86523	102.20514	105.65346
7	104.34184	108.32322	112.05816	116.75407	121.86558	126.74805	131.82591
8	123.09960	128.52818	133.65511	140.14695	147.26947	154.12567	161.30918
9	143.00159	150.17779	157.00141	165.70366	175.32807	184.66540	194.52208
10	164.11760	173.37535	182.23876	193.62438	206.31879	218.73247	231.93641
11	186.52169	198.23153	209.52034	224.12775	240.54804	256.73428	274.08366
12	210.29243	224.86493	239.01172	257.45270	278.35424	299.12531	321.56253
13	235.51318	253.40262	270.89190	293.86020	320.1112	346.41250	375.04748
14	262.27239	283.98076	305.35438	333.63539	366.23176	399.16135	435.29828
15	290.66392	316.74523	342.60832	377.08979	417.17191	458.00271	503.17080
16	320.78734	351.85236	382.87983	424.56372	473.43531	523.64023	579.62920
17	352.74828	389.46965	426.41400	476.42898	535.57824	596.85890	665.75959
18	386.65884	429.77658	473.47305	533.09179	604.21511	678.53432	762.78546
19	422.63794	472.96545	524.34460	594.99591	680.02452	769.64324	872.08511
20	460.81177	519.24233	579.33675	662.62615	763.75602	871.27526	995.21112
21	501.31420	568.82800	638.78326	736.51219	856.23746	984.64576	1133.91267
22	544.28728	621.95905	703.04494	817.23270	958.38322	1111.11056	1290.15992
23	589.88171	678.88897	772.51182	905.41985	1071.2032	1252.18205	1466.17244
24	638.25741	739.88938	847.60551	1001.76431	1195.81287	1409.54729	1664.45054
25	689.58403	805.25131	928.78180	1107.02063	1333.44425	1585.08822	1887.81082

Spend as much time studying an investment as you do earning the money you put into it.

TOTAL FUTURE VALUE

STEP THREE: Total future value

To determine the *estimated total future value* of your deferred compensation account, add the answer from Step One and the answer from Step Two together.

STEP ONE: _____ Future value of your *current balance*

+

STEP TWO: _____ Future value of your *monthly contributions*

=

STEP THREE: _____ Total future value of your account

WORKSHEET
MONTHLY WITHDRAWALS

To determine the amount of money you may withdraw each month from your deferred compensation account, find the factor that corresponds with the number of years you wish to receive monthly payments and the annual yield you anticipate earning during that period. Divide the total future value of your investment (Step Three) by 1,000 and multiply the answer by your factor. The answer will give you an estimate of your monthly withdrawals.

For example: You have a deferred compensation account that will be worth $73,715.13. You wish to receive a payment each month for a period of 25 years and you anticipate earning an annual yield of 8%. Your factor would be 7.71819.

Divide your account balance of $73,715.13 by 1,000 to obtain an answer of 73.715.

Multiply 73.715 and the factor of 7.71819 together.

You may withdraw $568.95 per month for 25 years.

Amount of monthly withdrawals: _____

WORKSHEET

MONTHLY WITHDRAWALS

Years	6%	7%	8%	9%	10%	11%	12%
1	86.05869	86.55744	86.98845	87.43837	87.90684	88.37242	88.83516
2	44.31302	44.80276	45.22731	45.67177	46.13595	46.59866	47.05987
3	30.41431	30.90754	31.33638	31.78657	32.25806	32.72934	33.20039
4	23.47731	23.97714	24.41294	24.87162	25.35324	25.83591	26.31953
5	19.32497	19.83262	20.27641	20.74463	21.23748	21.73255	22.22973
6	16.56494	17.08099	17.53326	18.01151	18.51603	19.02394	19.53504
7	14.60048	15.12524	15.58623	16.07473	16.59113	17.11203	17.63715
8	13.13323	13.66687	14.13671	14.63554	15.16387	15.69775	16.23684
9	11.99742	12.54002	13.01874	13.52793	14.06815	14.61492	15.16781
10	11.09359	11.64518	12.13278	12.65228	13.20431	13.76379	14.33025
11	10.35845	10.91903	11.41547	11.94519	12.50887	13.08089	13.66064
12	9.74979	10.31933	10.82455	11.36439	11.93955	12.52384	13.11656
13	9.23839	9.81685	10.33076	10.88058	11.46702	12.06332	12.66865
14	8.80339	9.39069	9.91321	10.47285	11.07034	11.67833	12.29591
15	8.42947	9.02554	9.55655	10.12585	10.73415	11.35354	11.98294
16	8.10518	8.70991	9.24928	9.82806	10.44691	11.07735	11.71817
17	7.82166	8.43499	8.98259	9.57066	10.19979	10.84094	11.49275
18	7.57216	8.19395	8.74965	9.34679	9.98593	10.63742	11.29978
19	7.35124	7.98141	8.54504	9.15105	9.79989	10.46136	11.13383
20	7.15461	7.79301	8.36443	8.97908	9.63733	10.30841	10.99055
21	6.97874	7.62525	8.20431	8.82738	9.49474	10.17506	10.86642
22	6.82081	7.47529	8.06181	8.69308	9.36923	10.05841	10.75855
23	6.67841	7.34074	7.93455	8.57378	9.25842	9.95608	10.66457
24	6.54961	7.21964	7.82057	8.46751	9.16033	9.86611	10.58251
25	6.43273	7.11032	7.71819	8.37261	9.07331	9.78682	10.51072

Financial planning involves much more than just managing and investing money. Financial planning includes making all the pieces of your financial life fit together.

CHAPTER 6

RISK MANAGEMENT

"Be careful, and you will save many men from the sin of robbing you."

Ed Howe

Most people think of risk management as another term for insurance. While insurance is a part of risk management, it is only a small part. True risk management is a process by which you determine just how much risk is involved in a particular action and how much risk your particular temperament will tolerate. The type (and amount) of insurance you purchase is a result of the risk management process.

To understand the process of analyzing risk, there are four ways to approach the problem. Presuming you agree that there is an inherent risk every time you get behind the wheel of an automobile, the four approaches to risk management have been listed below.

Risk Management

Risk Avoidance:	You leave your car in the garage.
Risk Retention:	You are very careful when you drive. If there is an accident, you'll pay the damages.
Risk Reduction:	You take defensive driving lessons and drive on less traveled roads.
Risk Transfer:	You purchase the most comprehensive policy available.

Most of us use a combination of these four approaches because we cannot afford to be totally responsible for our financial liabilities (and most states won't even let us try); but neither can we afford insurance to cover every potential hazard. Therefore, we attempt to strike a balance between financial cost and personal exposure. For example, most of us have a deductible on our automobile policy. The deductible we select is the amount we must pay before the insurance company pays its share. The larger the deductible, the lower the premium.

Studies by the National Insurance Consumer Organization have revealed what most of us have suspected all along – nine out of ten American consumers have the wrong kind of insurance – more insurance than necessary in some areas, or inadequate amounts in other areas. To compound the problem, consumers typically buy insurance from the wrong company, pay more than necessary, or give little thought to the actual needs of their personal situation.

For the past several years, the insurance industry has used the statement that "you need three to six times your annual salary in life insurance and you should set aside at least 5% of your income to meet those needs." Based on what data? How did they reach that formula?

We go through different stages of life and when those stages change, our needs change. So how much life insurance do you really need? It depends. First of all, if your spouse dies and your assets get tied up in probate, serious financial problems could occur. Probate usually takes from nine months to two years to complete. If contested, probate could take many more years to complete. Life insurance provides instant cash for the following necessities:

- Funeral and other final expenses;
- Mortgage, car loan, and credit card debt;
- College education;
- Income replacement of deceased.

The chart on the following page will help you determine the *amount* of insurance you need. Determining the *type* of life insurance you need is not an easy task because each household has different needs and as those needs change, insurance requirements change. Generally speaking, there is no "best" type of life insurance. A combination of two or more types of insurance may be required to meet the changing needs of your household.

Be sure to check the financial solvency rating of your insurance company. Nothing would be more devastating than to pay premiums for many years only to have the company declared insolvent just as you need to submit a claim. Also, keep in mind that the cheapest policy may not be the best policy.

HOW MUCH LIFE INSURANCE IS ENOUGH?

		Example	Yourself
1. a)	What is the amount of net income needed per month to maintain your family's standard of living? Do not include your house payment or other loan payments if insurance proceeds will be used to pay off the balances. Those balance amounts will be entered in Step 8. If insurance proceeds will not be used, then use 75% of current monthly income.	$ 2,500	$
b)	Multiply the total net amount on line 1a by 12, and enter on subtotal line 2.	$ 30,000	$
2.	Subtotal.	$ 30,000	$
3.	Unique and personal expenses.	$	$
4.	Subtotal (add lines 2 and 3 together).	$ 30,000	$
5.	Annual income from other sources such as spouse (if he/she plans to continue working), trust income, rental property.	$ 15,000	$
6.	Subtract line 5 from line 4.	$ 15,000	$
7.	To determine the amount of capital needed to generate interest income determined above, divide the answer on line 6 by the interest rate you would likely earn after taxes on a lump sum investment. For example, if 3% sounds reasonable, divide by .03. If 5% sounds reasonable, divide by .05.	$500,000	$

Note: This calculation does not include inflation. To determine the amount of capital needed to generate income that will grow with inflation, use a lower percentage such as 2%.

8.	Estate settlement costs such as taxes, probate, and funeral expenses (figure 3% of line 7).	$ 15,000	$
9.	Outstanding loan balances such as mortgage or car payments you did not include in Step 1a.	$100,000	$
10.	Educational expenses.	$ 30,000	$
11.	Subtotal (add lines 7,8,9 and 10).	$645,000	$
12.	Existing insurance and other liquid assets.	$350,000	$
13.	Amount of insurance needed (line 11 minus line 12).	$295,000	$

HOW PERMANENT LIFE INSURANCE POLICIES DIFFER

	Policy Provides	Values to Policyholder	Death Benefits
Traditional Whole Life	Fixed premium payment but can borrow on cash value Guaranteed cash value	Can borrow against cash value or withdraw dividends Dividends can be paid in cash, can reduce premiums, or can buy more paid-up insurance	Guaranteed death benefit which can increase from dividends purchasing paid-up insurance
Universal Life	Can adjust premiums	Insurance company invests cash at a current interest rate, but policy provides for a minimum rate of return	Guaranteed minimum death benefit, but can otherwise be varied by policy holder
Variable Life	Fixed premium payment but can borrow on cash value Cash values vary with fund performance with risk to policyholder	Can choose from various funds to invest cash values Can borrow against cash values	Variable, but not lower than original face amount
Variable Universal	Can vary premium amounts paid Cash values vary with fund performance	Can choose investment to invest cash values Can borrow against cash values or make withdrawals Interest rate varies with fund performance	Guaranteed minimum death benefit, not lower than the original face amount of the policy Can vary death benefit which varies with fund performance

TYPES OF INSURANCE

The following provides a brief description of the different types of life insurance.

TERM INSURANCE:

Term insurance provides a pure death benefit with no cash value. Term insurance is most often provided by employers as part of a group plan. While a group plan may be the most cost-effective way to obtain insurance, you are limited by the amount of coverage you may purchase. Also, while you may be able to convert your group policy into an individual policy upon termination or retirement, conversion is extremely expensive.

If you have term insurance that you purchased from an agent, keep in mind that the rates are generally favorable in the earlier years of life and begin increasing by middle age. By the time you reach the age of 45, premiums become unaffordable – which is a gentle way for insurance companies to tell you they don't want your business.

Incidentally, there has been a war raging for decades as to whether it's better to buy permanent insurance or "buy term and invest the difference." Frankly, people rarely invest the difference. They buy term and spend the difference – and end up with no insurance at the age of 50 because they can't afford the premiums or they are uninsurable.

UNIVERSAL LIFE INSURANCE:

Universal life insurance is a variation of a whole life policy that guarantees a minimum return (usually 4%) on the cash value, but credits your policy with the actual rate you receive on an investment portfolio consisting of bonds and government paper. This policy allows you to have some flexibility with the annual premium.

In other words, if interest rates increase, you may be able to reduce your premium. On the other hand, if interest rates decrease, you may have to deposit additional money to retain the cash value that was originally illustrated to you.

VARIABLE LIFE INSURANCE:

Variable life insurance is another variation of whole life insurance that has a fixed premium (once you sign the papers, you have committed yourself to a certain amount of money) with the flexibility of allowing you to make some of the investment decisions.

The cash value of a variable life policy is invested in the stock and bond markets so if your investments do well, both the cash value and the death benefit will increase. Conversely, the cash value and the death benefit can decrease if your investments do poorly. This policy has no guaranteed cash value.

VARIABLE UNIVERSAL LIFE INSURANCE:

Variable universal life insurance is a combination of variable and universal life and is the most aggressive way to purchase life insurance. Except for a death benefit that cannot fall below the amount you purchase, it offers no guarantees. On the other hand, the opportunity for increased earnings on the cash value portion of the policy is significantly higher because you can purchase stocks, bonds, and international investments. The actual internal cost of insurance is usually less with a variable life insurance policy than with other types of permanent insurance and often considerably less than term insurance.

WHOLE LIFE INSURANCE:

Whole life insurance is a level premium type of insurance based on the concept you will make premium payments until age 99 (hence the name, "whole life") and if you are still alive at age 100, the insurance company will give you the face amount of the policy. In other words, you deliberately pay more than the cost of pure death protection and the insurance company invests the extra money. You receive a guaranteed interest rate on the additional money, which ranges from 4% to 6%. Obviously, the insurance company is investing your money at a much higher rate and keeping the difference between what they earn and what you receive.

HEALTH INSURANCE

COMPREHENSIVE OMNIBUS BUDGET RECONCILIATION ACT (COBRA):

In the event of your termination or death, you (or your dependents) may be able to continue health insurance coverage through your employer at group rates. Qualifying events which would entitle you (or your dependents) to continue coverage include:

- Your death;
- Termination or reduction of work hours for reasons other than gross misconduct;
- Divorce or legal separation from the covered employee;
- Your entitlement to certain Medicare benefits.

Coverage will end not earlier than:

- A statutory maximum period;
- The end of the plan or your failure to pay the premiums;
- Your eligibility for group health coverage under another plan, or Medicare.

The statutory maximum period depends on the qualifying event. For example, your dependents may continue coverage for 36 months in the event of your death. If you terminate employment, you and your dependents may continue coverage for 18 months.

If you elect to continue coverage through your employer, you will (in most instances) be responsible for the entire premium.

Please check with the Personnel Department for specific information on continuing your group health insurance into retirement.

LONG TERM CARE

Insurance policies that cover long-term nursing care promise to pay related bills if you need to enter a nursing home or if you need care in your own home. These policies vary widely from company to company and from policy to policy. If you wish to purchase such a policy, be sure to compare features and costs from several different companies.

KEY QUESTIONS TO ASK:

- Is the policy renewable for life?
- Does the policy have a requirement of prior hospitalization before receiving nursing home benefits?
- Does the policy cover skilled, intermediate and custodial care?
- How long do you have to wait before benefits are paid?
- Does the policy have sufficient coverage for a stay of three or four years in a nursing home?
- Does the policy include a protection against inflation? Is the protection compounded?
- Does the policy cover the cost in your vicinity?
- Will the premium increase significantly as you age?
- Does the policy cover degenerative conditions such as Alzheimers?
- Does the policy include a waiver of premium?
- Does the policy have a death benefit provision?

COST OF POLICY:

According to Consumer Reports, a 65 year old can expect to pay around $3,000 a year for a policy covering both nursing home and home care; a 75 year old would pay at least $5,000. Also, remember that not every person is insurable. Individuals with pre-existing conditions may be denied coverage or receive more restrictions.

MEDICARE

For the most part, anyone eligible for Social Security benefits will automatically qualify for Medicare at age 65. Medicare is also available to those under the age of 65 who qualify for Social Security disability benefits. Medicare consists of two parts:

- Hospital Insurance (Part A)
- Medical Insurance (Part B)

Part A pays a portion of inpatient hospital care and provides for some care through skilled nursing facilities, home health care agencies, and hospices. Part A is financed by payroll taxes and an annual deductible paid by Medicare beneficiaries.

Part B, which is optional, helps pay for physician services and certain other medical and home health care costs not covered by hospital insurance. The government finances most of the services covered under Part B, but participants pay a monthly premium and an annual deductible. After the deductible is paid, Medicare pays 80% of approved doctor fees, outpatient hospital costs, diagnostic testing, and other services received that year. Part B has a maximum limit on the standard charges. You, or your private health insurance plan, are responsible for the remainder of the doctor bill.

Keep in mind that most employer health insurance plans or supplementary Medicare insurance policies pay only the 20% not covered by Medicare, *not the amount above Medicare's approved amount.*

Note the example on the following page:

Doctor bill	$5,000
Medicare's approved amount	$4,000
Medicare pays (80% of $4,000)	$3,200
Insurance pays (20% of $4,000)	$ 800
You would have to pay:	$1,000

Health services not covered by Medicare include most out-patient prescription drug charges, routine dental services, hearing aids, eye exams and glasses, many immunizations, private nurses, and chronic long-term care.

The biggest fear and reason that elderly people consider extra health insurance is that Medicare pays only for the first 100 days in a skilled nursing facility. Anything over that is your responsibility. Medigap policies don't address this issue.

MEDIGAP

Medigap is an insurance policy that covers the expenses not covered by Medicare. If you lose individual or group health care coverage at age 65, and you're too wealthy to qualify for low-income assistance, you need a Medigap policy.

An open enrollment period for purchasing a Medigap policy guarantees that for six months immediately following the effective date of Medicare Medical Insurance (Part B) coverage, a person age 65 or older cannot be denied Medigap insurance or charged higher premiums because of health problems. In addition, keep the following issues in mind:

- Insurance companies must sell standard policies so you can compare the differences.
- Insurance agents can't sell you a second Medigap policy unless you cancel the first policy.
- Insurance agents can't sell you a Medigap policy if you're currently on Medicaid.
- At age 65, you have six months to buy a policy at standard rates without passing a health exam. However, the policy may exclude coverage for pre-existing conditions during the first six months the policy is in effect.

Basic policies cover deductibles and the co-insurance portion of Medicare. For a higher premium, you can insure against part, or all, of the unpaid portion of a doctor bill, the cost of very long-term hospital stays, longer stays in a skilled nursing facility, and outpatient prescription drugs.

Also, keep in mind that while policies have been standardized, premiums can vary widely. If you make a poor choice originally, you may not be able to get a less expensive or more comprehensive policy at a later date if you have developed health problems a new insurer does not want to cover.

CHAPTER 7

EMPLOYEE BENEFITS

The following pages provide a brief overview of employee benefits that are available to you. Keep in mind that if you do not have an emergency fund, your Sick and Vacation Leave should be accumulated so that a combination of the two will provide you with continuous income.

LEAVES OF ABSENCE AND HOURS OF WORK:

If you are on *paid Sick or Injury Leave for more than 6 work weeks,* your advancement dates will be adjusted accordingly. If you are on any type of *unpaid Leave for more than 10 consecutive work days*, your advancement and seniority dates will be adjusted accordingly.

Leaves without pay will not be granted until all leaves with pay are exhausted, except if you are on Military Leave or some types of Family and Medical Leave.

You must be in pay status while on a leave of absence to accumulate Sick and Vacation Leave benefits. If you are on Military Leave, you will continue to accumulate seniority rights and benefits.

SERVICE-CONNECTED DEATH BENEFIT

If the death of an employee results directly from a Service-Connected cause or an occupational disease, then the employee is entitled to a Service-Connected death benefit.

SURVIVOR BENEFIT – SERVICE CONNECTED

50% of final salary at the date of death

CHILDREN'S BENEFIT

10% of final salary at the date of death for each child under the age of 18 and unmarried

- the combined benefit shall not exceed 75% of final salary -

This benefit is payable to your surviving spouse during your surviving spouse's lifetime.

When the combination of the survivor and minor child benefits exceed 75% of your final salary, the benefit to your surviving spouse will be reduced to less than 50% so that the combined benefits equal 75%. As minor children become ineligible for a benefit, the surviving spouse benefit will be increased to a maximum of 50%, so that the remaining combined benefits are no more than 75% of your final salary.

SURVIVOR BENEFIT – SERVICE CONNECTED

(NO SPOUSE)

If you have no surviving spouse, a benefit of 20% of your final salary is payable to each unmarried child under the age of 18.

Benefits paid to a minor child will terminate when the child reaches the age of 18 years or marries. Benefits also terminate upon death of the minor child.

- the combined benefit shall not exceed 60% of final salary -

In the event that combined payments exceed 60% of your final salary, the benefit for each child will be reduced pro-rata so that total payments equal 60% of your final salary.

Deferred retirees with less than 20 years of Service are not entitled to survivor benefits.

NON-SERVICE CONNECTED DEATH BENEFIT
(includes the death of a retiree)

If you have at least 3 years of Service with the City of Wichita, your surviving spouse is entitled to receive a benefit upon your death. To be eligible for this benefit:

- Your death cannot be due to Service-Connected causes; or
- You are on Sick Leave receiving a Salary at the time of death, but not on Sick Leave as a result of a Service-Connected cause; or
- You are on an approved leave of absence that has not extended more than 12 continuous months at the time of death, but not on an approved leave as a result of a Service-Connected cause.

SURVIVOR BENEFIT – NON-SERVICE CONNECTED

35% of final average salary at the date of death, increased by 1% for each year of service above 3 years, up to a maximum benefit of 50% of final average salary

If you participate in Plan B, the benefit will always equal 50% of final average salary

CHILDREN'S BENEFIT

10% of final salary at the date of death for each unmarried child under the age of 18 (15% for each child if there is not also a surviving spouse)

- the combined benefit shall not exceed 66 2/3% of final average salary -

When the combination of the surviving spouse and minor child benefits exceed 66 2/3% of your final average salary, the benefit to your surviving spouse will be reduced so that the combined benefit equals 66 2/3% of your final average salary.

As minor children become ineligible for a benefit, the surviving spouse benefit will be increased to the appropriate percentage (not to exceed 50%) based on your years of service, so that the remaining combined benefits are no more than 66 2/3% of your final average salary.

When you do not have a surviving spouse eligible for a benefit, the combined monthly benefit payment to minor children, cannot exceed 50% of your final average salary. In the event the total payment to minor children exceeds 50%, the benefit to each minor child will be reduced pro rata so that the combined monthly payments equal 50% of your final average salary. In no event will the benefit to a minor child exceed 15% of your final average salary.

PERMANENT SERVICE-CONNECTED DISABILITY BENEFITS

Disability may be defined as the inability to perform permanently the duties of your position due to mental or physical incapacity resulting from external force, violence, or disease.

SERVICE-CONNECTED DISABILITY BENEFIT

- DISABLED OR PERMANENT INJURY -

75% of the salary in effect at the time your salary payments ceased

Occupational Disease may be defined as any sickness, disease, or illness of the heart, lungs, or respiratory tract of a member who has five full years or more of actual service credit, determined to be directly attributable to employment while in the performance of an act of duty.

SERVICE-CONNECTED DISABILITY BENEFIT

- OCCUPATIONAL DISEASE -

50% of the salary in effect at the time your salary payments ceased

Keep in mind that you may be periodically re-examined by a physician and if determined that you are able to perform your duties, you may be returned to Service. If you refuse to return to Service, all disability payments will cease.

Your Disability Benefit will be recomputed when you reach the age of fifty-five (55). At that time, the Disability Benefit will be recomputed in the same manner as the Service retirement benefit you would have received had you been continuously in Service in the grade occupied at the time disability began, subject to periodic salary changes in grade. In this case, Service credit will be granted for the period of time in which you receive Disability Benefits prior to age fifty-five (55) toward your recomputed Disability Benefits.

PERMANENT NON-SERVICE CONNECTED DISABILITY BENEFITS

If you have at least 7 years of credited Service, are under the age of fifty-five (55) years, and become totally and permanently disabled due to any cause other than a Service-Connected Disability while an employee of the City of Wichita, then you will be entitled to a Non-Service Connected Disability benefit.

NON-SERVICE-CONNECTED DISABILITY BENEFIT

30% of your final average salary for the first 7 years, plus 1% for each year of Service in excess of 7 years, up to a maximum of 50% of final average salary

A Non-Service Connected Disability may be defined as the inability to perform permanently the duties of your position due to mental or physical incapacity resulting from external force, violence, or disease – other than a "service-connected" or "duty-related" disability.

The Disability Benefit will be payable during the period of your Disability, but you will be subject to periodic medical examinations.

INCOME DURING YOUR DISABILITY:

If you work for compensation during your disability retirement, your benefit will be reduced by the amount of your earnings which when combined with your benefit, exceed the current salary of the position you were in when you became disabled.

RECOVERY FROM THE DISABILITY:

In the event you recover from your Disability and re-enter Service with the City as a Police or Fire Officer, you will receive credit towards your Retirement Benefit for the periods of time during which you received the Non-Service Connected Disability Benefit. To receive this credit, you must complete at least 3 years of Service after returning to work.

Disability incurred while in military service will not be considered for Disability Benefits.

Your Disability Benefit will begin to accrue upon commencement of your disability. In the event you continue to receive salary income, the benefit will begin accrue from the date salary has ceased.

INJURY LEAVE:

If you are a non-probationary full-time employee, you will receive Injury Leave Benefits to supplement Workers' Compensation payments so you will continue to receive your current take-home pay for the first 90 consecutive calendar days from the date of injury.

After 90 consecutive calendar days, you will then use accrued Sick Leave and Vacation Leave to supplement Workers' Compensation payments to provide up to current take-home pay until you are released to return to work. Injury leave may be extended up to one year from initial date of injury if certain criteria is met.

SOURCES OF INCOME DURING INJURY LEAVE

1-90 days	Injury Leave Benefits and Workers' Compensation
91 days +	Accrued Sick and Vacation Leave

If you are a part-time, limited, or probationary full-time employee, you will receive Workers' Compensation payments as prescribed by the Kansas Workers' Compensation Act.

Use of Injury Leave will not affect your eligibility for longevity benefits such as pay, vacation, or sick leave.

You must remain in pay status to earn vacation and sick leave, and you must remain in pay status for the City to pay its portion of your health and life insurance premium payments.

The City will pay medical and hospital costs and other allowances in connection with the injury as prescribed by the Kansas Workers' Compensation Act.

If you are an exempt employee, you must take all types of accrued leave in increments of at least one day. You will not be able to have absences of less than one day subtracted from any accrued leave, except as permitted under Family and Medical Leave.

VACATION LEAVE:

Base hours for computing vacation leave have been listed below:

BASE HOURS REQUIRED TO EARN VACATION LEAVE

Civilians and Commissioned Police and Fire personnel who work a 40-hour week = 2,080

Commissioned Fire and Airport Safety personnel who work a 56-hour week = 2,912

Police Sergeants and Lieutenants = 2,210

You may not take Vacation Leave before it is earned. If you are a probationary employee, whether on a six-or twelve-month probation, you may not take Vacation Leave until the beginning of the pay period following the completion of 6 months of employment.

If you have retired, and then are re-employed, you will not receive credit for any prior service toward longevity vacation.

You are allowed to accumulate and carry forward accrued vacation days in the following manner:

TOTAL VACATION DAYS THAT MAY BE ACCUMULATED

Exempt employees = 30 days

Exempt Fire Department personnel who work a 24-hour shift = 15 shifts

Nonexempt employees = 240 hours

Commissioned Fire and Airport Safety personnel who work a 24-hour shift = 360 hours

Police Lieutenants and Police Sergeants working an 85 hour work period = 255 hours

You will be required to "use or lose" vacation that is earned in excess of the above amounts before the end of the pay period in which your anniversary date occurs.

Refer to the appropriate bargaining agreement for ***provisions regarding vacation leave for nonexempt commissioned Police (except Lieutenants) and Fire personnel, civilian FOP-represented employees and Teamster-represented Airport employees.***

Vacation Leave for Police Lieutenants who work an 85-hour work period is earned at approximately the following rate:

VACATION LEAVE FOR POLICE LIEUTENANTS

(85-hour work period)

Years of Service	8-Hour Days Earned per Year
Less than 5	10
5 – 9	15
10 – 15	17
16 – 20	20
21 or more	25

Vacation Leave for exempt personnel who work a 24-hour shift is earned at approximately the following rate:

VACATION LEAVE FOR EXEMPT PERSONNEL

(24-hour shift)

Years of Service	12-Hour Days Earned per Year
Less than 5	10
5 – 9	15
10 – 15	17
16 – 20	20
21 or more	25

Exempt Fire Department personnel who work a 24-hour shift will also receive 4 Kelly days off during a payroll year, scheduled on a 24-hour basis. These days must be scheduled at the convenience of your department.

Vacation Leave for exempt personnel, other than those who work a 24-hour shift, is earned at approximately the following rate:

VACATION LEAVE FOR EXEMPT PERSONNEL

(other than 24-hour shift)

Years of Service	8-Hour Days Earned per Year
Less than 5	10
5 – 9	15
10 – 15	17
16 – 20	20
21 or more	25

SICK LEAVE WITH PAY:

If you are a probationary employee during your first 6 months of service, you will accrue Sick Leave at the rate of 1/2 work day per month you are in pay status. You will not be paid for Sick Leave used during the first 6 months. If you are represented by the Fraternal Order of Police, see the provision in the FOP agreement.

Full-time non-exempt employees earn Sick Leave for hours in pay status. Sick Leave accrues at the following rate:

ACCRUAL OF SICK LEAVE FOR NON-EXEMPT EMPLOYEES

Years	Days per Year
1-5	1/2 day per month (6 days per year)
6-15	1 day per month (12 days per year)
16+	1.167 days per month (14 days per year)

If you are a full-time exempt employee, you will earn Sick Leave for hours in pay status.

ACCRUAL OF SICK LEAVE FOR EXEMPT EMPLOYEES

Years	Days per Year
1-5	1/2 day per month (6 days per year)
6-15	1 day per month (12 days per year)
16+	1.167 days per month (14 days per year)

Sick Leave may be used in the following situations:

- Personal and immediate family illness;
- Surgery;
- Disability (including maternity leave);
- Paternity leave;
- Off-the-job injury;
- On-the-job injury (when injury leave is exhausted);
- Enforced quarantine; or
- Family and Medical Leave (as allowed) to the limits stated.

Immediate family is defined as the following:

- Spouse;
- Child, Stepchild, state-approved Foster Child;
- Parent.

Immediate family also includes any other relative living in your home. Paternity leave is included in immediate family leave and may be used for the birth of a child. Parental leave (for either or both parents) for the adoption or foster care placement of a child is also included.

IMMEDIATE FAMILY LEAVE – NON-EXEMPT EMPLOYEES

48 hours per payroll year

3 shifts for 24-hour employees

51 hours for non-exempt Police Lieutenants and Sergeants

IMMEDIATE FAMILY LEAVE – EXEMPT EMPLOYEES

6 days per payroll year
3 shifts for 24-hour employees

If you exceed these limits, it will be charged to vacation, if available. Otherwise, it will be leave without pay.

Also, keep in mind that a physician's statement may be required by your department for undocumented personal or immediate family Sick Leave use of 48 hours or more in a calendar year. If you work a 24-hour shift, the physician's statement must be submitted when Sick Leave exceeds 72 consecutive work hours. If you have a pattern of undocumented Sick Leave, your supervisor may request a physician's statement even though you may have used less than (48 or 72) hours of Sick Leave in a calendar year.

If you need to extend your Sick Leave, written notice of the need must be given to your supervisor in advance whenever possible, estimating or specifying when the Sick Leave will begin. A physician's statement authorizing a return to work must be provided before you can return to work.

If you have prior Creditable Service, you are not eligible to earn Sick Leave based on your adjusted start work date until you have completed two continuous years of service after re-employment.

WELL DAY:

If you are a non-exempt employee, you can earn a Well Day if you complete a payroll year as a full-time employee and use 24 hours or less of Sick Leave during that payroll year.

If you are an exempt employee, you can earn a Well Day if you use three days (one shift if on a 24-hour shift) or less of Sick Leave during a payroll year. If you work a 24-hour shift, you will receive the equivalent of one shift's pay in lieu of time off.

WELL DAY

8 hours of leave if you work an 8-hour day
24 hours of leave if you work a 24-hour schedule
25.5 hours of leave for Police Lieutenants and Sergeants

This leave may be taken in increments of not less than 30 minutes, or in accordance with department rules. This Well Day is granted the second pay period of the following payroll year. You may not accumulate this day from one day to the next, but it is renewable each year.

SICK LEAVE WITHOUT PAY:

If you have exhausted all of your paid leaves, including Personal Holiday and Well Day, you may request Sick Leave without pay. Sick Leave without pay is for the same purposes as paid Sick Leave, but *not* for purposes covered by Family and Medical Leave.

Sick Leave without pay will not be granted for more than 60 consecutive work days in a twelve month period. You will be terminated after 60 consecutive work days unless an extension is granted by the City Manager upon recommendation of your department director.

The City will not pay health or life insurance premiums while on Sick Leave without pay. It is your responsibility to make arrangements for payment of the total premium.

FAMILY AND MEDICAL LEAVE:

If you have worked for the City for at least 12 months (consecutively or non-consecutively) and have been in pay status for at least 1,250 hours during the previous 12 months, then you are entitled to up to 12 cumulative weeks for Family and Medical Leave per year for the birth, adoption, or foster care of a child; to care for a spouse, child, or parent with a serious health condition; or for your own serious health condition. Family and Medical Leave cannot be used for the care of a parent-in-law.

If you want to use Family and Medical Leave for your own medical condition, then you must use all accrued paid leave, including Personal Holiday and Well Day, before taking unpaid leave. Family Leave may be taken consecutively, intermittently, or on a reduced schedule. An exception is leave for the birth, adoption, or foster case, which must be taken consecutively. When you return from Family and Medical Leave, the City will attempt to return you to the position you held prior to the leave. If this is not possible, you will be placed in a position of equivalent pay and benefits. If you are using unpaid leave intermittently or on a reduced schedule, the City may reassign you to a different position at the same pay level if necessary to accommodate the leave.

Keep in mind that you will not accrue additional Vacation or Sick Leave while you are on leave. If you are on an unpaid leave for 2 or more consecutive work weeks, both advancement and seniority dates will be adjusted. You will not accrue additional Service Credit for the period of the unpaid leave.

You will be responsible for paying both your share and the City's share of life insurance premiums while on unpaid leave. However, the same health insurance provisions, including the City's share of premiums, will continue while on Family and Medical Leave. You must pay your share of the health insurance premium for the insurance to remain in effect. If you choose not to return to work from unpaid leave for reasons other than a continued serious health condition, you will be liable for health insurance premiums paid by the City during the time of the Family and Medical Leave.

EMERGENCY LEAVE:

In the event of a death in your immediate family – spouse, child, stepchild, parent, stepparent, grandchildren, grandparents, brother, sister, mother-in-law, father-in-law, son-in-law, daughter-in-law, or any relative living in your home, then you are allowed Emergency Leave with pay up to a maximum of 3 work days (one shift for 24-hour employees) to attend the funeral.

This leave must be approved by your department or division director and will not be charged against any leave accumulation. If you are represented by the Fraternal Order of Police, see the provision in the FOP agreement.

CIVIL LEAVE AND JURY DUTY:

When you receive an order requiring you to make a court appearance, arrangements must be made with your supervisor to comply with the order.

If you appear in an official capacity, or as an expert witness for the City, then you will be on leave with pay. Consequently, pay from the court must be turned in to the Treasurer's Office. You do not need to turn in money that is received as a reimbursement for travel or meals while serving on Jury Duty or as an expert witness for the City.

If you serve on Jury Duty or are subpoenaed as a witness on a regular day off, or on leave for Vacation, Personal Holiday, or Well Day, then you do not need to turn in money you may have received from the court. You are expected to return to work on scheduled work days after being released from Jury Duty.

If you are involved in a personal court case not involving employment with the City, you may be granted leave, but the time taken off must be charged either to Vacation, Personal Holiday, or Well Day.

VOTING:

Under Kansas Law, you must be allowed two consecutive hours off to vote, unless the polls are open at least 2 consecutive hours during non-work hours. If polls are open less than 2 consecutive hours during non-work hours, you will only be allowed time off that, when added to the non-work time polls are open, will equal 2 consecutive hours.

EDUCATION LEAVE:

If you are a full-time employee, you may be granted an Education Leave without pay for up to 12 months. Course work must be related to your position with the City.

The leave must be approved by your Department Director, Personnel Director, and the City Manager. Verification of enrollment in the stated course of study must be provided.

While on Education Leave, you will not accrue Vacation or Sick Leave. If you wish to continue health insurance coverage, you may do so through COBRA. You will continue membership in the Retirement System to which you belonged when the leave began, but contributions will cease during the period of the leave, and you will not accrue additional service credit for the period of the leave.

Every effort will be made to allow you to return to City employment in the same or comparable position. However, no guarantee can be made.

When you begin an Education Leave, if approved, you have the option of being paid for unused accrued vacation, or having the balance held until you return to work with the City. You will not receive Service Credit for the time of the leave toward longevity benefits or seniority.

OTHER LEAVE WITHOUT PAY:

Your department director may grant other types of leave without pay for up to 30 calendar days. This leave will not be granted until all Vacation Leave has been exhausted.

The City will not pay health or life insurance premiums during this time. It is your responsibility to contact the Personnel Division to arrange for payment of the total premium.

HOLIDAYS:

As an employee for the City of Wichita, you will receive time off from work with pay for the following holidays:

HOLIDAYS

New Year's Day	Veteran's Day
Dr. Martin Luther King, Jr.'s Birthday	Thanksgiving Day
Presidents' Day	Day after Thanksgiving
Memorial Day	Christmas Day
Independence Day	Personal Holiday
Labor Day	

If you are a non-exempt Fire Department employee who works a 24-hour shift, you will receive pay for 2 additional undesignated holidays - 12 hours pay will be paid in April and 12 hours in October. If you are an exempt Fire Department employee who works a 24-hour shift, you will receive pay for 1 additional shift, the equivalency of 1/2 shift to be paid in April and 1/2 shift in October.

PERSONAL HOLIDAY:

The Personal Holiday allows a total of 1 work day of paid leave time for non-exempt employees (twelve hours for 24-hour employees, who will receive pay in lieu of time off), scheduled according to department procedures. These hours may be taken in as short as 30-minute intervals by non-exempt employees. Probationary employees are not eligible to use Personal Holiday hours until they have completed at least 6 months' service.

The Personal Holiday for exempt employees is also 1 work day but must be taken as a full day. Employees who work a 24-hour shift will receive the equivalent of 1/2 shift's pay in lieu of time off. You will not receive holiday premium pay for working on a scheduled Personal Holiday.

Nonexempt employees working four, ten-hour days will receive 10 hours of holiday pay for the legal holidays observed.

If you are a non-exempt employee who is required to work on a holiday, then you will receive, in addition to your regular pay, time and 1/2 for the hours worked. If you are a commissioned Fire Department or Airport Safety employee who works a 24-hour shift, then you will receive, in addition to regular pay for time worked, an amount of pay equal to 1/2 shift's pay.

Holidays that occur during an approved leave of absence with pay, except injury leave, are charged as holidays and are not charged as days of leave taken.

When a holiday falls on the first non-work day (Saturday) the preceding work day will be observed. When a holiday falls on the second non-work day (Sunday) the following work day will be observed, unless otherwise directed by the appointing authority.

If you are represented by the Fraternal Order of Police, see the holiday provision in the FOP agreement.

Holiday pay will not be allowed if you fail to work on a holiday if you are regularly scheduled to work on that day, or fail to work on a holiday when an emergency situation requires you to work.

If you are a nonexempt employee and not in pay status for at least 6 hours on the work day preceding and the work day following the holiday, you will not be allowed Holiday pay unless you are granted written approval by your Department Director.

Two of your best resources are Pension Management and the Personnel Department. Both departments have a wealth of information that can help you plan for retirement.

CHAPTER 8

INVESTMENTS

"Seek wealth, it's good"

Ivan Boesky

As teenagers, we think, "I can't save now. I'm just getting established. I have school loans to repay and I'm not ready to make a commitment. I want to have fun while I can, but later I'll save, for sure."

In our thirties, we have a family and responsibilities. "It costs a lot of money to raise children and there's the mortgage on the house. It takes all we earn just to make ends meet. When we make more money and the kids are older, then we'll save."

In our forties the kids are in college and costs are out of sight. "There are weddings and graduation trips and we want to help the kids get started. Expenses are terrible; it's impossible to save. When expenses go down a little, then we'll save. We promise."

In our fifties, things haven't worked out in our careers like we thought they would. "The company has downsized, our jobs are in jeopardy, and there's just no opportunity for promotions. Our elderly parents are having a hard time paying their bills and we have to help with expenses. When things get better, then we'll save."

In our sixties, we just can't save. "We thought things would be better and we would be able to retire earlier, but things didn't work out. We still owe on our home and the bills keep mounting. The kids are having trouble and the grandchildren need so much. We wish we could save, but there just isn't enough money."

In our seventies, we barely survive. "We're too old to save. Our Social Security checks and small pension from the company just don't go very far. Medical bills and long-term care expenses take everything. We hate being a burden on our children, especially when we remember how tough it was with our parents. We wish we could have saved when we were younger, but now it's just too late."

According to the Social Security Administration, the following exists at age 65:

45% of adults are dependent on relatives,
30% are dependent on charity,
23% still work because they cannot afford to quit,
2% are self-sustaining.

THE BASICS OF SAVING VERSUS INVESTING

People *save* for short-term goals such as a new car or family vacation, typically in low-risk, easily accessible passbook savings accounts, money market funds, or certificates of deposit. In general, the principal (what you put in) is protected and you earn interest.

People *invest* for long-range goals such as college or retirement, usually in higher risk assets such as stocks and bonds that historically have earned more than common savings vehicles. In general, principal is not guaranteed, but you have a chance to earn higher returns (income), over the long run.

The most common types of investments have been listed below:

CASH AND CASH EQUIVALENTS:

Cash and cash equivalents are short-term investments such as money market funds, CD's, and Treasury bills. Earnings come from interest payments (typically lower than bonds) but you can cash them in quickly and easily without loss of principal.

BONDS:

Bonds are IOUs issued by corporations and government entities. They promise to repay you, the lender, your principal plus interest. Bond holders can also profit from increases in bond prices.

STOCKS:

To own stock is to be part owner of a public company. You can earn money from stocks in two ways:

- Dividends, which are a portion of the corporate profits
- Capital gains, which is any increase in the stock's value between the time you buy it and the time you sell it.

REAL ESTATE:

Two ways you can own real estate is directly, such as your home or rental property, or by investing REITS (real estate investment trusts), which are corporations that own and manage real estate. Real estate can provide regular income and capital gains from an increase in value.

PRECIOUS METALS:

You can own gold and silver directly, or through stock in mining companies. Most earnings come from an increase in the price of the metals.

MUTUAL FUNDS:

Mutual funds are companies that pool money from investors and in turn buy cash equivalents, bonds, stocks, and other assets (or various combinations) on their behalf. There are dozens of types of mutual funds. Some invest primarily in the stock of large domestic corporations or specific industries. Others focus on government or corporate bonds, precious metals, foreign stocks and bonds, or a mixture of different types of assets.

The objectives and risks of each mutual fund vary and this information is contained in the prospectus. Some seek primarily steady income, growth (capital gains), or a combination of the two.

Mutual funds make it easier and cheaper for the small investor because their professional management selects and buys a wide variety of investments.

The following page lists some of the ways to save additional money for retirement.

INDIVIDUAL RETIREMENT ACCOUNT (IRA)

TYPE OF PLAN:

Depending on whether or not an individual is covered by a pension plan at work, an IRA could be a tax-deductible, tax-deferred retirement plan. At the very minimum, an IRA would provide tax-deferred earnings.

DEDUCTIBILITY:

- Single employees who have no company pension plan or married employees when neither have a company pension plan may deduct the entire $3,000.
- Single employees with a company pension plan and household income up to $45,000 (for 2004, indexed for inflation) may deduct all, or a portion, of the $3,000.
- Married employees with a company pension plan and a household income up to $65,000 (for 2004, indexed for inflation) may deduct all, or a portion, of the $3,000.
- The self-employed may deduct the entire $3,000.

WITHDRAWALS:

Money may be withdrawn at any time. However, if money is withdrawn prior to age 59 ½, the 10% tax penalty will be incurred - plus federal and state income taxes.

INVESTMENTS:

Virtually any type of investment may be purchased except collectibles, art, real estate (except partnerships) or precious metals (except U.S. gold and silver coins).

An IRA account may be "transferred" or "rolled over" from one investment firm to another. A transfer means instructing one investment firm to collect the money from another investment firm. In other words, you must not take possession of the money. A "roll-over" means taking possession of the money and accepting responsibility for ensuring that the money is re-deposited with another investment firm. A "roll-over" must be re-deposited within 60 days to avoid the 10% tax penalty.

DEADLINE TO OPEN:

An IRA must be open and funded by April 15 of the following tax year. In other words, to claim an IRA deduction in 2004, the account must be opened and the money deposited by April 15, 2005.

COMMENT:

An IRA *cannot* be used as collateral for a loan.

ROTH IRA

TYPE OF PLAN:

A Roth IRA is a non-deductible, tax-free retirement plan.

WHO CAN CONTRIBUTE:

If eligible, you can contribute up to the lesser of $3,000 or 100% of your compensation that is includable in gross income. A married couple may contribute up to $3,000 for each spouse. The maximum contribution permitted to a Roth IRA is reduced or eliminated for certain high-income taxpayers.

CONVERSIONS:

You may wish to convert a traditional IRA into a Roth IRA. If so, please discuss the conversion with your accountant prior to making a decision since the benefits of converting vary with each individual. Also, please note that current law requires you to include the entire amount of the traditional IRA as income in the year converted.

WITHDRAWALS:

If the money is held within the Roth IRA for five years, you may withdraw the total amount without penalty and/or taxes if *any* of the following conditions are met:

- Age 59 ½;
- Disability;
- Death;
- Qualified first-time homebuyer.

EDUCATION IRA

TYPE OF PLAN:

An education IRA is a trust or custodial account created exclusively for the purpose of paying the "qualified higher education expenses" of the designated beneficiary of the trust.

Distributions from education IRA's for "qualified higher education expenses" are not includable in income and contributions are not deductible.

Contributions must be made in cash and must be made on or before the date on which the beneficiary attains the age of 18.

CONTRIBUTION LIMITS:

For 2004, the contribution limit per beneficiary is $2,000 per year. This amount is phased out for certain high-income contributors so please check with your accountant for information relating to your specific situation.

Mutual fund companies offer an easy way to set up an Education IRA. Just call the mutual fund company of your choice and ask for an Education IRA application form.

SERIES EE SAVINGS BONDS

TYPE OF INVESTMENT:

A Series EE Savings Bond should be considered an IOU of the federal government.

PURCHASE OF SERIES EE BONDS:

Series EE bonds may be purchased in denominations ranging from $50 to $10,000. The purchase price of each bond is 1/2 its face value. For example, a bond with a face value of $100 would cost $50. An individual investor may purchase up to $30,000 of face value Series EE bonds ($15,000 cash) each year; joint owners may purchase up to $60,000 of face value bonds ($30,000 cash) each year.

Series EE bonds pay interest from the first day of the month regardless of the date of purchase during that month. If a bond is purchased on the last day of the month, interest would be earned from the first day of the month.

Series EE bonds carry an adjustable market rate and a minimum interest rate. Both of these rates are set by the U.S. Treasury on May 1 and November 1 of each year. However, the actual yield on EE bonds held for five years or more is the higher of either the market rate or minimum rate. Currently, bonds yield a minimum of approximately 4% annually.

TAXABILITY OF INTEREST INCOME:

Interest earnings on the bonds are exempt from state and local income taxes. Earnings are taxed at the federal level. Utilizing cash basis reporting, as most of us do, interest may be reported either annually OR one time upon maturity.

Since January 1, 1990, investors who redeem EE bonds for educational purposes may omit accrued EE bond interest when reporting gross income if the following criteria have been met:

- The bonds must have been purchased after December 31, 1989 and the purchaser must have been at least 24 years old at the time.
- If married, a joint return must be filed.
- Modified adjusted gross income determines the amount of the interest exclusion. Please check with your accountant for current exclusion limits.
- The redemption proceeds must be used for the investor, their spouse, or allowable dependents to pay for qualified higher education expenses.

MATURITY OF BONDS:

Series EE bonds have two maturities:

- Initial
- Final

Initial maturity represents the period of time needed for the redemption value of the bond to reach face value.

Final maturity represents the investor's holding period up to a maximum of 30 years. In other words, the bond may be held for 31 years, but interest would not be earned beyond 30 years.

REDEEMING BONDS PRIOR TO MATURITY:

Bonds may be redeemed prior to maturity; however, the bonds must be held at least six months. The bonds must be held at least five years in order to earn the 4% minimum rate.

SIMPLIFIED EMPLOYEE PENSION PLAN (SEP)

TYPE OF PLAN:

A SEP is a tax deductible, tax-deferred retirement plan for the self-employed. If you work during retirement, you may deduct a portion of your earnings.

CONTRIBUTIONS:

You may currently deduct 15% of self-employment income up to a maximum of $30,000, whichever is less. A SEP does not require an annual contribution.

DEADLINE TO OPEN:

A SEP must be opened and funded by April 15 for the previous tax year. In other words, to claim a SEP deduction for 2004, the account must be opened and the money deposited by April 15, 2005.

WITHDRAWAL:

Funds from a SEP account may be withdrawn at any time. However, if funds are withdrawn prior to age 59 ½, a 10% tax penalty would apply plus federal and state income taxes on the total amount withdrawn. You must begin withdrawing assets by age 70 ½.

COMMENT:

A SEP counts as a pension plan, so you would not be able to deduct an IRA contribution unless your adjusted gross income meets the IRA qualifications.

TAX-DEFERRED ANNUITIES

As indicated earlier, an annuity may be defined as a sum of money payable at regular intervals of more than one full year from the starting date. Annuities may be sold by insurance agents, bankers, stockbrokers, and financial planners. But regardless of who sells the product, an annuity is always backed by an insurance company.

TYPES OF ANNUITIES:

Annuities may be either immediate or deferred. An immediate annuity pays a lifetime income beginning now; a deferred annuity accumulates income for the future.

Deferred annuities may be either fixed or variable. A fixed annuity pays an interest rate as determined by the company. A variable annuity is invested in stocks, bonds, or mutual funds. In both cases, the earnings are tax-deferred.

HOW TO PURCHASE AN ANNUITY:

A single premium annuity may be bought with a single sum of money; a flexible premium annuity allows contributions of smaller amounts of money on a monthly basis, or irregular amounts of money on a periodic basis.

The money may be withdrawn in a variety of ways:

STRAIGHT LIFE ANNUITY:

Receipt of a fixed, monthly, quarterly, or annual income is guaranteed to last as long as you live. If you die before reaching your life expectancy, the insurer keeps the balance of the account. If you outlive your life expectancy, the insurer assumes the additional cost. This arrangement typically pays the most amount of money.

LIFE OR PERIOD CERTAIN:

The income covers your lifetime or a fixed number of years, whichever is longer. An example would be "life or ten year certain." The insurer will make payments for as long as you live. But if you die at the end of year five, your beneficiary will continue to receive the same payment only for the remaining five years. If you die at the end of year 12, your beneficiary receives nothing.

JOINT AND SURVIVOR ANNUITY:

You receive a fixed payment that lasts during your lifetime and the lifetime of your beneficiary.

LUMP SUM:

You receive a lump sum distribution and either spend or invest the money elsewhere. As indicated earlier, if you take a lump sum distribution prior to age 59 ½, you will be subject to the 10% tax penalty – in addition to federal and state income taxes. Keep in mind that if you made the contribution to the annuity on a "pre-tax" dollar basis, the taxes and penalty would be due on the entire amount. If you made the contribution to the annuity on an "after-tax" dollar basis, the taxes and penalty would be due only on the earnings.

INSTALLMENT PAYMENTS:

You receive a fixed number of payments during a period of your choice. An example would be monthly payments for a period of ten years. If you live longer than the specified ten years, you receive no additional payments. If you die within the ten years, the balance of your account goes to your beneficiary.

IRREGULAR PAYMENTS:

You may withdraw money from time to time as necessary. If you die before withdrawing 100% of your money, the balance goes to your beneficiary.

VARIABLE PAYMENTS:

You link your monthly income to the investment results of the annuity. In other words, your income fluctuates in relationship to the earnings.

SYSTEMATIC WITHDRAWALS:

You establish an income based on your life expectancy. This calculation changes your anticipated lifetime on an annual basis (the longer you live, the longer you are expected to live) to provide you with substantially equal payments over a lengthening lifetime. If you die, your account balance goes to your beneficiary.

The following will provide additional information that may be of use to you.

TAX ISSUES:

According to the IRS, if you receive regular withdrawals from an annuity, part of each withdrawal will be treated as taxable income. If you make occasional withdrawals subject to no particular schedule, the entire amount will be treated as taxable income until you have taken out all the money your investment ever earned.

EXIT FEES:

Typically, you will have to pay a surrender fee if the annuity is surrendered prior to a pre-determined date. Typically, it's 7% the first year, 6% the second, etc. These fees have been designed to encourage long-term investing.

COMMENT:

Never buy from a company that pays an extremely high interest rate in relation to its competitors. That extremely high rate will probably drop by a significant amount in subsequent years.

Never buy from a company that has an extremely high surrender charge. Keep in mind the standard charge starts at 7%.

Never buy from a company that has a low safety/credit rating.

Never buy an annuity if you will need the money prior to age 59 ½ or prior to the lapse of the surrender charge.

BONDS

A bond is simply a certificate indicating that someone owes money. In other words, when you buy a bond, you buy a debt.

TYPES OF BONDS:

Bonds vary in the length of their maturity.

- Short-term – matures in less than 2 years
- Intermediate term – matures in 2-10 years
- Long term – matures in more than 10 years

Bonds can be further divided into categories:

- U.S. Government
- Mortgage-backed
- Investment grade corporate
- Medium grade corporate
- High yield (junk) corporate
- Investment grade municipal
- High yield municipal
- Global

CREDIT RATINGS:

When selecting an individual bond or bond mutual fund, you need to be aware of the various credit ratings. If the ratings are not advertised, the information may be obtained from Moody's Investor Services or Standard & Poor's Corporation.

Basically, each drop in the credit rating involves a commensurate increase in yield. In other words, to earn a higher yield, a higher level of risk must be assumed.

The following will provide a description of the various credit ratings:

CREDIT RATING OF BONDS

AAA	Best quality – extremely strong ability to pay interest and repay principal.
AA	Strong ability to pay interest and repay principal.
A	Good capacity to meet obligations. Considered an "upper medium" grade. More susceptible to changing economic conditions.
BBB	Adequate capacity to pay interest and principal. However, the situation could weaken by changes in circumstances.

Bonds above this level are considered "investment grade"
Bonds below this level are considered "speculative"

BB	Faces ongoing uncertainties or potential adverse conditions that could make it unable to meet its obligations.
B	Can pay interest and repay principal at the present time; could default in the future.
CCC	Clear danger of default.
CC	May be in default. Highly speculative.
C	Bankruptcy may have been filed but the company is still paying interest.
D	In default or in bankruptcy. Debt service payments are in jeopardy.

PRICE OF BONDS:

If you buy a bond on the open market, you may note that the price of the bond increases and decreases. This rise and fall in price brings its yield into line with current rates. The yield depends on the price actually paid for the bond, and the price actually paid depends on the following factors:

- current interest rates
- length of time until maturity
- credit quality of the issuer

The following terms may help in understand the concept behind bonds.

PAR VALUE:

The face value of a bond is known as its "par" value. A $5,000 bond has a "par" value of $5,000.

COUPON:

The coupon is the fixed interest payment on each bond. A newly issued $1,000 bond paying $90 a year has a coupon of $90.

CURRENT YIELD:

Current yield may be defined as the coupon interest payment divided by the price of the bond. For example, if a new issue $1,000 bond pays $90 a year, it has a coupon of $90 and a current yield of 9%. If the price of the bond dropped to $950, its coupon would remain at $90. Its current yield would rise to 9.5%.

PREMIUM:

A premium is the amount by which the market value exceeds its par value. A $1,000 bond selling at $1,050 has a $50 premium. Bonds typically sell at a premium when interest rates fall.

DISCOUNT:

A discount is the amount by which the market value has fallen below its par value. A $1,000 bond selling at $950 has a discount of $50. Bonds typically sell at a discount when interest rates rise.

YIELD TO MATURITY:

Yield to maturity is what a bond would earn if held to maturity and every single interest payment was reinvested at the same rate as when it was purchased. For instance, if a broker says that your yield to maturity is 9%, the process assumes that every single interest payment is reinvested at 9%. If interest payments are reinvested at a low rate, the rate to maturity would be less than 9%.

TOTAL RETURN:

Total return consists of the annual interest payments plus the bond's gain or loss in market value. For example, assume you have a $1,000 bond that you purchased for $1,000 with a coupon of $90. Its current yield would be 9%. If you sold that bond one year later for $1,050, you made a $50 profit. Your total return would consist of $90 from interest payments and $50 from its increase in price. Therefore, total return would be $140 or 14%.

As another example, assume you had a $1,000 bond that you purchased for $1,050 with a coupon of $90. Its current yield would be 8.6%. If you sold that bond one year later for $1,000, you took a $50 loss. Therefore, total return would consist of $90 from interest payments minus the $50 loss. Total return would be $40 or 3.8%.

Tax-exempt bonds have an advantage. If you are in the 28% tax bracket, you would have to find a taxable investment yielding 9.72% to match the 7% yield of a tax-free investment. Note the example on the following page:

TAX-FREE VERSUS TAXABLE YIELDS

Tax-Free Yield	Taxable Equivalent		
	15%	28%	31%
4%	4.71%	5.56%	5.80%
5	5.88	6.94	7.25
6	7.06	8.33	8.70
7	8.24	9.72	10.14
8	9.41	11.11	11.59
9	10.59	12.50	13.04
10	11.76	13.89	14.49

The following provides a brief description of the various types of bonds.

U.S. GOVERNMENT:

The U.S. Government issues treasury bills, notes, and bonds to finance the deficit. Interest income from these securities is exempt from state and local income taxes.

TREASURY BILLS:

Treasury bills (T-Bills) have terms ranging from three to twelve months. They have a face value of $10,000 and are bought at a discount from a broker or the U.S. Treasury. The difference between the purchase price and the $10,000 received when the T-Bill matures constitutes the interest. Remember, the U.S. Treasury does not charge a fee for making the transaction.

TREASURY NOTES:

Treasury notes range in maturity from two to ten years. These notes pay interest every six months. Notes with a maturity of less than five years have a par value of $5,000, those with maturities of more than five years have a par value of $10,000.

TREASURY BONDS:

Treasury bonds can have maturities of up to 30 years. They come in denominations of $1,000 and pay interest every six months.

The following provides a brief description of various other types of bonds.

QUASI-FEDERAL AGENCY BONDS

GNMA BONDS:

"Ginnie Maes" are pools of home mortgages issued by a corporation within the Federal Department of Housing and Urban Development. They are sold in $25,000 denominations and gradually pay back principal over the life of the bond. Even though they have 25 year maturities, most last about 12 years because mortgages are constantly being paid off prior to maturity. These bonds are federally guaranteed.

FNMA BONDS:

"Fannie Maes" are issued by the Federal National Mortgage Association. These bonds are issued in $10,000 denominations and also pay back principal over the life of the loan. These bonds are not guaranteed.

SLMA BONDS:

"Sallie Maes" are issued by the Federal Student Loan Management Agency. They work like Ginnie Maes and Fannie Maes except they are backed by pools of federally guaranteed student loans.

MUNICIPAL BONDS

Cities and states sell bonds to raise money for everything from roads and bridges to airports and sewers. These bonds are typically sold in denominations of $5,000 and $10,000. They are exempt from federal income taxes. A bond issued by a state may also be exempt from state and local income taxes.

A general obligation bond is a municipal bond that is backed by the full faith and credit of its issuer.

A revenue bond is a municipal bond whose principal and interest will be paid from the income generated by a specific project.

BOND MUTUAL FUNDS

A bond fund is a mutual fund with a portfolio of bonds. Investment in a bond mutual fund can be done with a minimum amount of money while receiving the advantage of diversification. You may purchase a bond mutual fund that is comprised solely of a single category or a fund that is diversified among several categories. Keep in mind that many bond mutual funds charge up front and/or annual fees which reduce return. In addition, bond mutual funds do not have maturity dates; therefore, money may be lost if you sell when the market value of the fund has dropped.

ZERO COUPON BONDS

A zero coupon bond does not make interest payments. Rather, it is sold at a deep discount from its par value and gradually gains value each year until it matures. The discount depends on its compounded rate of interest and length of time until maturity. Unless zero coupon bonds are purchased for an IRA, you will owe taxes on the interest earnings (phantom earnings) each year.

OLD BONDS VERSUS NEW BONDS

If you wish to purchase an individual bond, you should buy a new issue. These are bonds newly offered to the public by corporations and government entities. The issuer pays the broker's commission and you receive a prospectus explaining who is backing their interest and principal payments. These bonds are sold at an honest market price with a stated yield that is simple to understand.

Older bonds are sold on the secondary market. An older bond costs more than a new bond because of the dealer's mark-up.

COMMENT:

The Alternative Minimum Tax (AMT) is a special tax that high earners pay on many tax-sheltered investments. If you pay AMT, you should check with your accountant before purchasing municipal bonds.

Most bond issuers include a "call" provision in the sale of their bonds. This provision allows the issuers to purchase their debt before it matures so they can refinance at a lower interest rate. Check for this provision. Otherwise, you may be surprised when your 8% municipal bond is redeemed seven years early.

TAXABLE VERSUS TAX-FREE BONDS

The following worksheet will help calculate the taxable equivalent to tax-free bonds.

TAXABLE EQUIVALENT WORKSHEET

	Example	**Yourself**
1. What is your maximum tax bracket?	.34	_____
2. Subtract your maximum tax bracket from 1.00	.66	_____
3. What is the yield on the tax-free bond you are considering?	7.0%	_____
4. Divide the tax-free yield by the number on line 2. This gives you the taxable yield you would need to net the same return you would receive from a tax-free bond.	10.61%	_____

The maximum tax bracket shown above reflects 28% federal and 6% state tax brackets.

Use the decimal equivalent for all percentages – 34% should be subtracted as .34.

INVESTMENT RISK

No investment is free of risk. Even so called "risk free" investments such as Treasury bills or CDs contain some type of risk. These risks include:

RISK OF PRINCIPAL:

This is the risk that investors worry about the most – the risk of losing money in the stock or bond market.

INFLATION RISK:

Inflation is the silent risk often overlooked by investors. It means today's dollar will buy less tomorrow because of inflation. At 5% annual inflation, $1,000 today will be worth only $500 in 14.4 years.

INTEREST RATE RISK:

Changing interest rates can affect bond prices and the amount of income investors receive from fixed-income assets such as bonds and CDs.

CREDIT RISK:

The risk that the issuer of a bond may default.

THE SECRETS OF SUCCESSFUL INVESTING:

Know why you're investing. Write down your goals and keep them firmly in mind.

Establish an emergency cash reserve fund. If you have an emergency fund, you won't have to liquidate investments to pay for unanticipated medical or legal bills, or other emergencies.

Establish an investment plan. Decide how you will allocate your money and stick with the decision. Educate yourself about investing. Remember, it's your money.

Understand the relationship between risk and return.

Invest a portion of your money in such assets as stocks. These assets will stay well ahead of inflation and taxes.

Don't panic every time the market drops - and don't invest your life savings every time the market is "hot."

Reinvest your earnings. One of the "secrets" to investing is putting dividends, interest, and profits back into the investment. Compounding – the earnings on your earnings – will make your investments grow much faster.

Take full advantage of your deferred-compensation program from Great-West Retirement Services. Without the drag of taxes, your investments will grow faster.

Monitor the performance of your investments and don't hesitate to rebalance your portfolio to maintain your goals.

Avoid "hot tips." What works for your best friend may not work for you.

CHOOSING THE RIGHT INVESTMENT

The easiest way to choose the right investments and minimize risk is to know your investment goals, diversify, and invest for the long run.

INVESTMENT GOALS:

What are your goals and how soon will you need the money? If you know your goals, you will avoid getting sidetracked by inappropriate investments. Also, you will avoid short-term emotions that may overrule logic and long-term goals.

DIVERSIFY:

Spread your money among several types of assets – and then several investments within each asset. In other words, diversify among cash, stocks, and bonds.

This mix of investment is called a portfolio. How you allocate (or mix) your investments will depend in part on your investment goals, how soon you will need the money, your age, how much money you have to invest, and your risk tolerance. Studies show that over 90% of the overall return of a portfolio depends on what percentage of your funds you put into each investment category (cash, bonds, stocks, etc.) at any given time – not on what specific investments you choose within each category.

INVEST FOR THE LONG RUN:

Prices may rise and fall over the short haul, particularly riskier investments like stocks, but over a longer period of time, many investments tend to do very well. And, choose investments that won't keep you awake at night.

CHANGING ANNUITY PROVIDERS

Part of your investment strategy may involve moving a tax-sheltered annuity from one company to another. If you decide to do so, the following will help you through the process.

Almost all annuity companies allow transfers in and out of their company. Just make sure that in switching companies, you do not incur significant surrender penalties. Or, if you will have surrender penalties, make sure you will be able to recoup those penalties fairly quickly from the new company. Check your contract date to see when a reduction in the penalties will occur. In other words, waiting one more month may save you another 1% in surrender fees.

Request a new application and transfer form from the new company. Complete the form and take the form to your existing provider.

One word of caution, do not take possession of the money. The transfer will be done automatically, but may take 30-90 days.

Just be very, VERY careful when switching annuity providers. Many of the individuals selling annuity products to educational or governmental facilities are great sales representatives - and the monetary incentive to convince you to move your money is significant. Remember, individuals who sell annuities typically work on commissions.

RETIREMENT TRENDS THAT WILL SHAPE YOUR FUTURE

- Longer life spans
- Possibility of outliving retirement funds
- Assisting adult children and elderly parents
- Costlier medical care
- Desire to retire in a different location
- Uncertain economic conditions
- Increased opportunities to pursue hobbies and senior activities
- Increased foreign travel
- Greater emphasis on retirement planning

THE MAGIC OF COMPOUNDING

The money you save earns interest. Then you earn interest on the money you originally saved plus interest on the interest you've previously accumulated.

COMPOUNDING OF $1,000

Years	4%	6%	8%	10%
10	$1,481	$1,791	$2,159	$2,994
20	$2,191	$3,207	$4,661	$6,728
30	$3,243	$5,743	$10,063	$17,449

For every ten years you delay before starting to save for retirement, you will need to save three times as much each month to catch up.

THE BASIC RULES OF INVESTING

DO NOT

- invest in anything you don't understand
- trust guarantees
- invest over the telephone
- give out person financial information over the telephone
- buy inferior products
- buy anything you can't sell later

DO

- use common sense/keep it simple
- be careful of outrageous promises
- avoid "buy now" sales pitches
- diversify
- request that a prospectus and other offering material be sent to you
- become financially literate
- cut your losses
- remember that all markets and all investments are cyclical
- utilize dollar cost averaging

WEB SITES ON INVESTING

Microsoft's Money Central

http://moneycentral.msn.com/investor/home.asp

Financial Web

http://www.financialweb.com/research

CBS Marketwatch

http://cbs.marketwatch.com/news/newsroom.htx

Raging Bull

http://www/ragingbull.com

Money.net

http://www.money.net

The Motley Fool

http://www.fool.com

The Street.com

http://www.thestreet.com

CHAPTER 9

WILLS, TRUSTS, ESTATES

"There is no security in this life. There is only opportunity."
Douglas MacArthur

John, age 42, died unexpectedly, leaving property and investments worth $150,000. Since John did not have a will, the state in which he lived dictated that his assets be distributed in the following manner:

Wife	$50,000
23 year old son, still in college	$50,000
14 year old daughter	$50,000

Since his daughter was a minor, the court thoughtfully appointed a guardian to oversee her finances. John's wife had no recourse.

* * * * *

Carrie, age 27, a divorcee living with a boyfriend, assumes her friend will distribute all property and assets in the event of her death. However, if Carrie dies, her friend would receive nothing – unless someone in her immediate family felt inclined to present him with a gift. The state in which Carrie lives would dictate that her assets be distributed to her closest blood relatives, beginning with the parents and going down a pre-determined sequence that varies from state to state. If Carrie has no relatives, her property would belong to the state in which she lives.

WILLS

A will takes effect upon your death and does not provide protection during life or in case of disability. Wills guarantee probate, a court supervised process which resolves disputes, pays off creditors, inventories your property, and then distributes the property (with legal title) to your beneficiaries. Probate can be expensive and time consuming. Typical probate fees range from 2% to 8% of the value of the estate and could take up to one year to complete. Wills may be challenged by disgruntled heirs and may not cross state lines. Probate also makes your assets and liabilities a matter of public record.

If you fail to prepare a will, your property will pass according to the laws of intestacy. In other words, if you do not have a will, the state in which you live will control disposition of your property. You will have no control over your property. In some states, only a person who dies without children or without living parents will be able to transfer their entire estate to the surviving spouse.

To clarify the issue, a will enables you to:

- Leave different amounts of money to different people;
- Give specific instruction regarding certain items;
- Name recipients for specific items;
- Name a guardian for minor or handicapped children;
- Name an executor;
- Waive a bond for the executor and guardian;
- Donate organs;
- Provide for adopted children;
- Disinherit heirs.

A will does not control the disposition of all property. Assets controlled by joint tenancy (home) or beneficiary designation (insurance policies) pass automatically to your beneficiaries. Just keep in mind that while most of your property may be owned jointly, it is extremely rare for a person to own all property in joint tenancy.

Consider household furnishings, jewelry, cameras, etc. Unless you have a will with a residual clause, these items may be distributed according to the laws of the state in which you live.

In other words, you may avoid probate in any of the following ways:

- Insurance benefits paid directly to a beneficiary instead of your estate;
- Death benefits from retirement plans or annuities payable to a surviving beneficiary;
- Assets distributed to your beneficiary from a living trust;
- Anything held jointly with rights of survivorship – such as bank accounts, investments, real estate.

Keep in mind that not all joint titles of property will ensure an automatic transfer.

• John or Mary Smith, JTWROS*	will transfer automatically
• John or Mary Smith, Tenants in Common	will transfer automatically
• John or Mary Smith, Tenants in its Entirety	will transfer automatically
• John or Mary Smith	will *not* transfer automatically

* joint with right-of-survivorship

COMMENT:

You should make a will as soon as you begin to accumulate assets or get married – certainly by the time you have children.

It is also not a good idea to put funeral instructions in your will. The will may not be read until it's too late to carry out your wishes. Remember to change your will if you divorce, remarry, retire to another state, or your beneficiary dies.

When making a trust, be sure and work with an attorney who is very familiar with estate planning laws. Remember, if a mistake is made, the mistake won't be discovered until it's too late.

LIVING WILL

A "Living Will" is a written statement or filled-in form that dictates what you want done, or do not want done, should you become critically or terminally ill and unable to communicate for yourself.

A "Health Care Power-of-Attorney" is a form used to appoint someone to make health care decisions if you are unable to make them for yourself.

Both the "Living Will" and the "Health Care Power-of-Attorney" work together by providing you with your rights to self-determination in case you cannot act for yourself.

If you have a "Living Will" and "Durable Power of Attorney," make sure EVERYONE has a copy. This includes your doctor, attorney, and family members.

ESTATE PLANNING

Your "estate" may be defined as the cash, investments, real estate, personal property, life insurance, and retirement benefits left behind when you die. "Estate Planning" may be defined as a comprehensive plan involving gifts, trusts, and other strategies. Estate planning requires a long-term plan and professional help.

During 2004, you receive a federal unified tax credit (for estate planning purposes) of $555,800, the tax that would be due on assets of $1,500,000. In other words, your beneficiary will pay federal estate taxes only on the amount of your assets which exceed $1,500,000. This unified credit is cumulative and includes the taxes due on taxable gifts you've made throughout your life.

RULES GOVERNING ESTATE TAXES:

- You may leave your heirs up to $1,500,000 free of federal estate taxes.
- If you are married, you have an unlimited marital deduction. In other words, you can leave everything to your spouse free of federal estate taxes. Just keep in mind that the marital deduction only defers the tax.
- You can set up one or more trusts. When you die, the trust exists independently and is not subject to tax. For example, if your estate is worth $2,000,000, you could leave $500,000 to your spouse tax-free and establish a $1,500,000 trust. Your entire estate would escape taxation.
- Don't own your own life insurance policy. If you do, the insurance benefits become part of your estate.
- You can assign ownership to someone else, have someone else buy the policy, or set up a trust to own the policy.

- Leave money and property to charity. The value of those gifts will decrease your taxable estate.
- For 2004, you and your spouse can each make an annual tax-free gift of $11,000 (no change from 2003) to anyone you choose. For example, suppose you wish to give your nephew $14,000. Of that amount, $11,000 would be tax-free. The remaining $3,000 would be considered a taxable gift and would be included in the $1,500,000 unified credit allowance.

The original $10,000 annual gift exclusion has begun increasing to account for inflation. It will rise with the annual inflation rate; however, increases are only in thousand dollar increments.

TRUSTS

A trust has two primary purposes:

- To shelter money for your heirs;
- To provide for other beneficiaries.

TYPE OF TRUSTS:

A trust may be either a testamentary trust, which takes effect upon your death, or a living trust, which takes effect while you're still alive. A testamentary trust must be administered by a trustee designated by you. You may act as trustee for a living trust.

A trust may also be revocable or irrevocable.

IRREVOCABLE TRUST:

An irrevocable trust works like a corporation. It earns income, pays taxes, and then either accumulates or distributes earnings. However, an irrevocable trust cannot be changed. You have no control over its assets nor can you benefit from any of its assets. You can only transfer a limited amount of assets into the trust each year, but the trust pays all taxes. If the trust is structured properly, you may be able to avoid estate taxes.

REVOCABLE TRUST:

A revocable trust is more flexible. You can make changes and adjustments to the trust at any time. You control the assets; consequently, you assume responsibility for the taxes. You may transfer assets in and out of the trust at any time with no annual limit. The assets held in a revocable trust will be taxed as part of your estate.

Before you jump to the conclusion that a trust is only for the very wealthy, consider some of the following examples:

QUALIFIED TERMINABLE INTEREST PROPERTY (QTIP) TRUST:

A QTIP leaves your estate to your spouse in trust, but lets you control its disposition after the death of your spouse. Your spouse receives the trust income, but cannot use the principal or change the beneficiaries you have designated.

CREDIT SHELTER:

A credit shelter trust pays your surviving spouse the income from the trust, but the trust itself is not taxed as part of your spouse's estate. This makes a Credit Shelter Trust particularly useful for married people with estates over $1,500,000.

LIFE INSURANCE TRUST:

A life insurance trust must be set up while you are still alive in order for the trust to be the owner of your life insurance policy. Your death benefit is paid to the trust which avoids estate taxes and probate.

CHILDREN'S TRUST:

The money in a children's trust must be used for the benefit of the child – such as paying tuition – and must become the property of the child at age 18 or 21. A trustee manages the money until the age of majority. If established early in the child's life, the trust could cover most, if not all, of a child's education expenses.

Trusts may also be designed to provide a multitude of variations from those listed above. Be sure to seek professional assistance when setting up any type of trust.

ITEMS TO CONSIDER:

Some items you need to consider when setting up a trust include the following:

- What type of trust do you want to create?
- Who will benefit from the trust?
- How long should the trust last?
- What assets do you want to include in the trust?
- Do you want the income to be accumulated or distributed?
- What tax benefits do you need?

COMMENT:

Be sure to seek assistance from an attorney when setting up a trust. Also, keep in mind that "probate" and "estate taxes" are not related. You may avoid probate and still be liable for estate taxes.

CHAPTER 10

EARLY RETIREMENT

"In life, as in football, you won't go far unless you know where the goalposts are."

Arnold Glasow

RETIRE EARLY? NOT UNLESS:

- You are finished with major obligations. These obligations would include putting your children through college and paying off your mortgage.
- You have a vested pension.
- You have substantial savings or investments.
- You have qualified to receive sizeable Social Security payments at the age of 62 or 65.

CONSIDER:

- Trying to negotiate any extra benefits your employer may be willing to give you for early retirement;
- Managing your investments and retirement funds more effectively to get a greater annual return;
- Setting aside more money for investment by reducing your current expenditures;
- Selling your personal residence at or before retirement and moving into something less expensive to provide additional investment capital;
- Working part-time;
- Using some or all of your investment capital during retirement to handle your needs. In other words, spend your children's inheritance!

WAYS TO MAKE UP FOR LOST TIME

SUPERCHARGE YOUR SAVINGS RATE BY REDUCING SPENDING:

There are only two ways to boost savings – earn more money or cut spending.

BE MORE REALISTIC ABOUT YOUR RETIREMENT AGE:

If you extend the age at which you plan to retire, you get a double financial benefit. You'll earn and save money for more years and spend your nest egg over fewer years.

USE YOUR HOME EQUITY:

You can sell your home and either move into a lower-cost property, or rent. Another option is a reverse mortgage – where you get a monthly income check as you build a loan balance against the value of your home. The loan is paid when your home is finally sold.

BE MORE AGGRESSIVE WITH YOUR INVESTMENTS:

The faster the rate at which your money grows and compounds, the less you need to save each year to reach your goals. Earning just a few extra percentage points per year on your investments can dramatically slash the amount you need to save. The younger you are, the more powerful the effect.

TURN A HOBBY INTO SUPPLEMENTAL INCOME:

If you have a hobby, you may be able to make a small fortune by putting that hobby to work for you. Some examples that have been successful are woodworking and repairing small appliances.

PUT SAVING FOR COLLEGE EXPENSES ON THE BACK BURNER:

This may sound selfish, but you need to take care of your future first. If you're not taking advantage of savings through your tax-sheltered annuity, you should do so before setting money aside in savings accounts for your children.

You should keep track of the money you spend improving your home. These expenses increase the total cost invested in your home.

TWO EASY INVESTMENTS:

PAY OFF HIGH-INTEREST DEBT:

Many people have credit card and/or other consumer debt that costs more than 16% per year in interest. Paying off this debt with savings is like putting your money in an investment that has a guaranteed return equal to the rate you are paying on the debt.

For example, if you have credit card debt with an interest charge of 16%, then paying off that debt is the same as putting your money to work in an investment with a guaranteed 16% annual return.

Remember, interest on consumer debt is not tax-deductible so you would actually need to earn more than 16% to net 16% after paying taxes.

CONTRIBUTE TO YOUR DEFERRED COMPENSATION PROGRAM:

Try to fund your deferred compensation program (Great-West Retirement Services) at the highest level you can manage.

If you need to save money outside your retirement account for short-term purposes, such as buying a car or home, then do so. But if you're continuing to accumulate money outside your retirement account with no particular purpose in mind, take advantage of the tax breaks by contributing and investing through your employer. Keep in mind that investing money outside retirement accounts requires greater thought and consideration because your investment can produce significant taxable distributions and subsequent tax liabilities.

THE EFFECTS OF INFLATION

	in 1978	in 1993	in 2008
loaf of bread	$ .61	$ 1.09	$ 1.96
paperback novel	3.30	5.95	10.72
round of golf	8.33	15.00	27.01
bottle of wine	5.55	10.00	18.01
box of cereal	1.66	2.99	5.38
eye exam	41.64	75.00	135.07
pair dress shoes	66.63	120.00	216.11
subscription	60.52	109.00	196.30

Note: Calculations assume a 4% rate of inflation per year.

HOW LONG WILL YOUR SAVINGS AND INVESTMENTS LAST?

Amount on Deposit	Years of Monthly Withdrawals 10	15	20	25	30
$ 5,000	$ 61.17	$ 44.49	$ 36.29	$ 31.49	$ 28.37
10,000	122.35	88.98	72.58	62.98	56.74
15,000	183.52	133.46	108.87	94.47	85.11
20,000	244.70	177.95	145.17	125.95	113.48
25,000	305.85	222.45	181.45	157.44	141.85
50,000	711.70	444.90	362.90	314.88	283.70
100,000	1,223.40	889.80	725.80	629.76	567.40
150,000	1,835.10	1,334.70	1,088.70	944.64	851.10
200,000	2,445.80	1,779.60	1,451.60	1,259,52	1,134.80
250,000	3,058.50	2,224.50	1,814.50	1,574.40	1,418.50
300,000	3,670.20	2,669.40	2,177.39	1,889.28	1,702.20
350,000	4,281.90	3,114.30	2,704.29	2,204.16	1,985.90
400,000	4,893.59	3,559.20	2,903.19	2,519.03	2,269.60
450,000	5,505.29	4,004.09	3,266.09	2,833.91	2,553.30
500,000	6,117.00	4,448.99	3,629.00	3,148.80	2,837.00

Note: Calculations assume a 4% inflation factor and an 8% return on investment.

Average Life Expectancy:	Men	Women
birth	71.5 years	78.3 years
at age 30	73.7	79.8
at age 40	74.8	80.2
at age 50	76.0	81.0
at age 65	79.9	83.6
at age 80	86.9	88.7

PAYING OFF A MORTGAGE

If you've ever taken the time to add up the total cost of your home, you probably already know that a $100,000 / 8% / 30-year mortgage would cost $262,408. The secret to avoiding this staggering cost? Stay in your home for many years and add an additional amount of money to your mortgage payment each month. Consider the following:

MORTGAGE PAYMENT

Mortgage	Interest Rate	Additional Amount	Payments	Total Cost	No. of Months
$100,000	8%	-0-	$728.91	$262,407.60	360
$100,000	8%	$ 50.00	$778.91	$222,274.35	285
$100,000	8%	$100.00	$828.91	$200,596.22	242

MORTGAGE DEBT

By the time you reach retirement, your home should be paid in full. If it is not, then consider the following issues.

- Consider refinancing to reduce the amount of interest you're paying. And if you do refinance, don't add to your mortgage debt by adding in other debt.

- Take a 7 / 10 / 15-year mortgage if you can afford the higher payments.

- Don't take a floating-rate mortgage. Remember, you will be living on a fixed income and you may not be able to afford an increase in interest rates.

- Don't be blinded by the tax deductibility of mortgage interest. You will probably be in a lower tax bracket during retirement so the tax deduction will be worth less.

- If you refinance, take the higher interest rate instead of paying points. In doing so, you will significantly reduce your out-of-pocket expenses so you can refinance again if rates drop lower.

- If you have other choices, don't pay off your mortgage from a lump sum pension distribution. By the time you pay taxes on the lump sum distribution, you would need approximately $1.40 from the pension distribution to retire $1 of mortgage debt.

MORTGAGE PAYMENT per $1,000

Rate %	10 year	15 year	20 year	30 year
6 3 /4	$ 11.48	$ 8.85	$ 7.60	$ 6.49
6 7/8	11.55	8.92	7.68	6.57
7	11.61	8.99	7.75	6.66
7 1/8	11.68	9.06	7.83	6.74
7 1/4	11.74	9.13	7.90	6.83
7 3/8	11.81	9.20	7.98	6.91
7 1/2	11.87	9.28	8.06	7.00
7 5/8	11.94	9.35	8.13	7.08
7 3/4	12.00	9.42	8.21	7.17
7 7/8	12.07	9.49	8.29	7.26
8	12.13	9.56	8.36	7.34
8 1/8	12.20	9.63	8.44	7.43
81 /4	12.27	9.71	8.52	7.52
8 3/8	12.33	9.78	8.60	7.61
8 1/2	12.40	9.85	8.68	7.69
8 5/8	12.47	9.93	8.76	7.78
8 3/4	12.53	10.00	8.84	7.87
8 7/8	12.60	10.07	8.92	7.96
9	12.67	10.15	9.00	8.05
9 1/8	12.74	10.22	9.08	8.14
9 1/4	12.80	10.30	9.16	8.23
9 3/8	12.87	10.37	9.24	8.32
9 1/2	12.94	10.45	9.32	8.41

HOME EQUITY LOANS:

A home equity loan enables you to borrow money for major improvements, college expenses, or other needs. Interest payments on home equity loans are fully deductible.

AMOUNT OF LOAN:

The more equity you have in your home, the more money you can borrow. Typically, you may be able to borrow up to 80% of your equity. Your home will be reappraised when you apply for a home equity loan, and if the market value of the homes in your neighborhood has dropped since you originally purchased the home, you may have less equity from which you may borrow.

Be very, VERY careful if you obtain a home equity loan. Even if you pay your mortgage on time, you may still lose your home if you fail to repay the home equity loan. And, if the bank sells your home for less than what you owe, you will still be responsible for the balance of the outstanding debt.

ADVANTAGES:

- The loan is easy to obtain;
- The loan usually has a lower interest rate;
- The interest is deductible.

DISADVANTAGES:

- The additional interest payments on the home equity loan can significantly increase the cost of your home;
- You could lose your home if you are unable to repay the home equity loan and your original mortgage loan;
- The amount of your loan stays the same even if the value of your home decreases.

REVERSE MORTGAGE

A reverse mortgage enables you to use the equity in your home for a variety of purposes. Basically, a lender agrees to advance you money based on the value of your home. You can take the money in a variety of ways:

- Fixed monthly or annual income;
- An open line of credit to use when you wish.

You may also receive a lump sum payment to pay off what remains on your regular mortgage, make home repairs, or take a vacation. The amount of income you receive depends on the equity in your home, its appraised value, fees, term of the loan, and your age.

TAXABILITY OF INCOME:

The income generated from a reverse mortgage is considered a loan; therefore, you will not be taxed. A reverse mortgage does not affect Medicare or Social Security benefits.

COSTS:

The lender charges regular mortgage closing costs which can be included in the loan. Typically, you can stay in the home as long as necessary. When your home is finally sold because you move or die, the proceeds are used to repay the loan and accumulated interest. The lender may also be entitled to some of the appreciated value of the house.

ADVANTAGES:

- You never owe more than the value of your home;
- You do not repay this loan until you move or die.

DISADVANTAGES:

- The loan is expensive because the interest charges on the mortgage will continue to compound until you leave the home or die;
- You may have to give up part of all of any future appreciation in the value of your home to repay the loan.

TO OBTAIN ADDITIONAL INFORMATION:

To obtain a free copy of AARP's consumer guide on reverse mortgages, "Home-Made Money" (D-12894) and / or a "Reverse Mortgage Lenders List" (D13253) by state, address a postcard with the desired title and number to the following:

AARP Fulfillment (EE0493)
P.O. Box 22796
Long Beach, California 90801-5796

CHAPTER 11

WORKSHEETS

The forms contained in this chapter will help you understand your present financial situation.

RISK TOLERANCE QUESTIONNAIRE:

Acknowledging that individuals have different risk/return tolerances, the *Risk Tolerance Questionnaire* will help you determine your own level of investment risk. The higher your risk tolerance, the greater the opportunity for higher returns on your investment.

FUTURE VALUE WORKSHEETS:

The *Future Value Worksheets* will help you calculate the future value of an investment. You may use this form for any asset that increases in value.

STATEMENT OF INCOME AND EXPENSES:

The *Statement of Income and Expenses* form will give you a good idea of your present financial situation.

STATEMENT OF NET WORTH:

Your net worth reflects your assets (the value of what you own or have invested) minus your liabilities (the money you owe). If your assets exceed your liabilities, you have a positive net worth. If your liabilities exceed your assets, you have a negative net worth.

CASH FLOW DURING RETIREMENT:

Complete this form to see if you can afford to retire. If your expenses exceed income, you may want to consider working for several more years to save additional money. Just keep in mind that your expenses will continue to increase during retirement.

SOCIAL SECURITY WORKSHEET:

The *Social Security Worksheet* will provide you with an estimate of your benefit. If you have not already received an estimate, call 1-800-772-1212 and ask for Form SSA-7004-PC.

RETIREMENT WORKSHEET:

The *Retirement Worksheet* will help you determine how much additional money you must save to meet your retirement goals.

You do not need to become a conservative investor as you approach retirement. However, you do need to reassess investment choices.

RISK TOLERANCE QUESTIONNAIRE

Acknowledging that individual participants have different risk/return tolerances, the following questionnaire will help determine your own level of investment risk. Answer each question by writing the number of points applicable to your answer on the line provided.

1. **AGE:**
   - 25 to 50 (3 points)
   - 50 to 65 (2 points)
   - Over 65 (1 point) _____

2. **ASSETS** (excluding emergency fund/home/personal property):
   - Over $50,000 (3 points)
   - $20,000 to $50,000 (2 points)
   - Under $20,000 (1 point) _____

3. **ATTITUDE** (how would you feel if an investment you owned dropped 500 points in one day?)
   - I'd take it in stride (3 points)
   - Upset, but I'd invest again (2 points)
   - I'd never want to invest again (1 point) _____

4. **DEBTS** (excluding home mortgage):
   - Less than 10% of take-home pay (3 points)
   - 10-15 % of take-home pay (2 points)
   - Over 25% of take-home pay (1 point) _____

5. **EMERGENCY FUND:**
   - More than 6 months living expenses (3 points)
   - 3 to 6 months living expenses (2 points)
   - Less than 3 months living expenses (1 point) _____

6. **FEELINGS ABOUT THE FUTURE OF THE ECONOMY:**
   - Optimistic (3 points)
   - Unsure (2 points)
   - Pessimistic (1 point) _____

7. **HOUSEHOLD INCOME:**
   - Over $75,000 annually (3 points)
   - Between $40,000 and $75,000 (2 points)
   - Under $40,000 annually (1 point) _____

8. **INVESTMENT KNOWLEDGE AND EXPERIENCE:**
   - Knowledgeable, calm, self-assured (3 points)
   - Some knowledge/experience (2 points)
   - Little knowledge/experience (1 point) _____

9. **CURRENT INVESTMENT PORTFOLIO:**
   - Mostly real estate, stocks, mutual funds (3 points)
   - Mostly bonds, annuities, treasuries (2 points)
   - Mostly CD's and money market accounts (1 point) _____

10. **TIME DEADLINE TO FINANCIAL GOALS:**
   - Ten years or more (3 points)
   - Three to ten years (2 points)
   - Less than three years (1 point) _____

TOTAL POINTS: _____

If your total score is 22 points or more, you are in a good position to increase your risk to the moderate level. A score of 12 to 21 points indicates a limited tolerance for risk and less than 12 points, a low tolerance for risk.

Source: Journal for Financial Planning, January 1992
Maris Young and Barbara O'Neill.

TRUE STORY

Last year, John contacted a local financial planner (Richard) with concern over the investment decisions he had made in his deferred compensation program. During the initial interview, John confessed that his current investment decisions had been based on information from a co-worker. When Richard asked for more information, John admitted that most of his co-workers made joint decisions on allocating money.

One of the main rules of financial planning is to plan for your own future based on your own requirements.

In other words, how old are you? Do you want to travel? Do you have an emergency fund? When do you plan to retire? Will you have to accept financial responsibility for your elderly parents? Will your home be paid off? What type of money do you need or want in retirement? Will you have to help your children or grandchildren? When do you want to retire? Do you have other investments? If so, how are those monies invested? Will you inherit money? Does your spouse have a retirement plan?

Every person has different hopes, dreams, and responsibilities. What works for one person may not work for another.

WORKSHEET
FUTURE VALUE

To determine the estimated future value of an investment, follow the instructions listed below.

STEP ONE: Determine the future value of your account.

Current Value of Your Account: _____

Locate the factor on the following chart that corresponds with the number of years you plan on contributing to your investment account and the annual yield you anticipate earning on your account. Multiply the factor and the current value of your account together. The answer will provide you with the future value of your current account balance.

For example: Your investment is currently worth $50,000. You plan on leaving the money invested for another ten years and you anticipate earning an annual yield of 8%. The following chart indicates that your factor would be 2.21965. If you multiply the $50,000 by the factor 2.21965, you determine that your investment will be worth an estimated $110,982.50 in ten years.

Future Value of Your Account: _____

WORKSHEET
CURRENT BALANCE

Years	6%	7%	8%	9%	10%	11%	12%
1	1.06150	1.07200	1.08300	1.09350	1.10450	1.11550	1.12600
2	1.12678	1.14918	1.17289	1.19574	1.21992	1.24434	1.26788
3	1.19608	1.23193	1.27024	1.30754	1.34740	1.38806	1.42763
4	1.26964	1.32062	1.37567	1.42980	1.48821	1.54838	1.60651
5	1.34772	1.41571	1.48985	1.56349	1.64372	1.72722	1.81006
6	1.43061	1.51764	1.61351	1.70967	1.81549	1.92671	2.03812
7	1.52859	1.62691	1.74743	1.86953	2.00521	2.14925	2.29493
8	1.61198	1.74405	1.89246	2.04433	2.21476	2.39749	2.58409
9	1.71112	1.86962	2.04954	2.23547	2.44620	2.67440	2.90968
10	1.81635	2.00423	2.21965	2.44449	2.70182	2.98329	3.27630
11	1.92806	2.14854	2.40388	2.67305	2.98417	3.32786	3.68912
12	2.04663	2.30323	2.60340	2.92298	3.29601	3.71223	4.15394
13	2.17250	2.46906	2.81949	3.19628	3.64044	4.14099	4.67734
14	2.30611	2.64694	3.05350	3.49513	4.02087	4.61928	5.26669
15	2.44794	2.83741	3.30694	3.82192	4.44105	5.15280	5.93029
16	2.59848	3.04170	3.58142	4.17927	4.90514	5.74795	6.67751
17	2.75829	3.26070	3.87868	4.57003	5.41773	6.41184	7.51887
18	2.92793	3.49547	4.20061	4.99733	5.98388	7.15241	8.46625
19	3.10799	3.74715	4.54926	5.46458	6.60920	7.97851	9.53300
20	3.29913	4.01694	4.92685	5.97552	7.29986	8.90003	10.73415
21	3.50203	4.30616	5.33578	6.53423	8.06269	9.92798	12.08666
22	3.71741	4.61621	5.77865	7.14518	8.90524	11.07467	13.60958
23	3.94603	4.94857	6.25827	7.81326	9.83584	12..35379	15.32438
24	4.18871	5.30487	6.77771	8.54380	10.86369	13.78065	17.25525
25	4.44631	5.68682	7.34026	9.34264	11.99894	15.37232	19.42942

WORKSHEET
MONTHLY CONTRIBUTIONS

STEP TWO: Determine the future value of your monthly contributions.

Current Monthly Contributions: _____

Locate the factor on the following chart that corresponds to the number of years you will continue to add money to your account and the annual yield you anticipate earning on those deposits. Multiply the amount of the monthly deposits and this factor together. The answer will provide you with the total future value of your monthly contributions.

For example: You deposit $250 each month into your investment account. You anticipate working for another ten years and you estimate you will earn an annual yield of 8%. The following chart indicates that your factor would be 182.23876. Multiply this factor and the monthly deposit of $250 together. At the end of ten years, the value of your account will be $45,559.69

Future Value of Contributions: _____

WORKSHEET
MONTHLY CONTRIBUTIONS

Years	6%	7%	8%	9%	10%	11%	12%
1	12.39292	12.45980	12.52024	12.59312	12.66894	12.73822	12.80729
2	25.54179	25.81057	26.05461	26.35111	26.66178	26.94770	27.23470
3	39.49276	40.11588	40.68527	41.38172	42.11687	42.79837	43.48718
4	54.29473	55.44401	56.50101	57.80265	59.18702	60.47980	61.79560
5	69.99962	71.86810	73.59783	75.74252	78.04101	80.20343	82.42003
6	86.66251	89.46652	92.07949	95.34183	98.86523	102.20514	105.65346
7	104.34184	108.32322	112.05816	116.75407	121.86558	126.74805	131.82591
8	123.09960	128.52818	133.65511	140.14695	147.26947	154.12567	161.30918
9	143.00159	15017779	157.00141	165.70366	175.32807	184.66540	194.52208
10	164.11760	173.37535	182.23876	193.62438	206.31879	218.73247	231.93641
11	186.52169	198.23153	209.52034	224.12775	240.54804	256.73428	274.08366
12	210.29243	224.86493	239.01172	257.45270	278.35424	299.12531	321.56253
13	235.51318	253.40262	270.89190	293.86020	320.11112	345.41250	375.04748
14	262.27239	283.98076	305.35438	333.63539	366.23176	399.16135	435.29828
15	290.66392	316.74523	342.60832	377.08979	417.17191	458.00271	503.17080
16	320.78734	351.85236	382.87983	424.56372	473.43531	523.64023	579.62920
17	352.74828	389.46965	426.41400	476.42898	535.57824	596.85890	665.75959
18	386.65884	429.77658	473.47305	533.09179	604.21511	678.53432	762.78546
19	422.63794	47296545	524.34460	594.99591	680.02452	769.64324	872.08511
20	460.81177	51924233	579.33675	662.62615	763.75602	871.27526	995.21112
21	501.31420	568.82800	638.78326	736.51219	856.23746	984.64576	1133.91267
22	544.28728	621.95905	703.04494	817.23270	958.38322	1111.11056	1290.15992
23	589.88171	678.88897	772.51182	905.41985	1071.2032	1252.18205	1466.17244
24	638.257.41	739.88938	847.60551	1001.76431	1195.81287	1409.54729	1664.45054
25	689.58403	805.25131	928.78180	1107.02063	1333.44425	1585.08822	1887.81082

Remember, you may be able to increase contributions to your deferred compensation program prior to retirement.

TOTAL FUTURE VALUE

STEP THREE: Total Future Value

To determine the estimated total future value of your investment, add the answer from Step One and the answer from Step Two together.

STEP ONE: _____ Future Value of Your Current Balance

+

STEP TWO: _____ Future Value of Your Monthly Contributions

=

STEP THREE: _____ Total future value of your account

WORKSHEET
MONTHLY WITHDRAWALS

To determine the amount of money you may withdraw each month from your investment, find the factor on the following page that corresponds with the number of years you wish to receive monthly payments and the annual yield you anticipate earning during that period. Divide the total future value of your investment (Step Three) by 1,000 and multiply the answer by your factor. The answer will give you an estimate of your monthly withdrawals.

For example: Your mutual fund will be worth $61,159.18. You wish to receive a payment each month for a period of 15 years and you anticipate earning an annual yield of 8%. Your factor would be 9.55655.

Divide your account balance of $61,159.18 by 1000 to obtain an answer of 61.159.

Multiply 61.159 and the factor of 9.55655 together.

You may withdraw $584.47 per month for 15 years.

Amount of Monthly Withdrawals: _____

WORKSHEET

MONTHLY WITHDRAWALS

Years	6%	7%	8%	9%	10%	11%	12%
1	86.05869	86.55744	86.98845	87.43837	87.90684	88.37242	88.83516
2	44.31302	44.80276	45.22731	45.67177	46.13595	46.59866	47.05987
3	30.41431	30.9075	31.33638	31.78657	32.25806	32.72934	33.20039
4	23.47731	23.9771	24.41294	24.87162	25.35324	25.83591	26.31953
5	19.32497	19.8326	20.27641	20.74463	21.23748	21.73255	22.22973
6	16.56494	17.0809	17.53326	18.01151	18.51603	19.02394	19.53504
7	14.60048	15.1252	15.58623	16.07473	16.59113	17.11203	17.63715
8	13.13323	13.6668	14.13671	14.63554	15.16387	15.69775	16.23684
9	11.99742	12.5400	13.01874	13.52793	14.06815	14.61492	15.16781
10	11.09359	11.64518	12.13278	12.65228	13.20431	13.76379	14.33025
11	10.35845	10.91903	11.41547	11.94519	12.50887	13.08089	13.66064
12	9.74979	10.31933	10.82455	11.36439	11.93955	12.52384	13.11656
13	9.23839	9.81685	10.33076	10.88058	11.46702	12.06332	12.66865
14	8.80339	9.39069	9.91321	10.47285	11.07034	11.67833	12.29591
15	8.42947	9.02554	9.55655	10.12585	10.73415	11.35354	11.98294
16	8.10518	8.70991	9.24928	9.82806	10.44691	11.07735	11.71817
17	7.82166	8.43499	8.98259	9.57066	10.19979	10.84094	11.49275
18	7.57216	8.19395	8.74965	9.34679	9.98593	10.63742	11.29978
19	7.35124	7.98141	8.54504	9.15105	9.79989	10.46136	11.13383
20	7.15461	7.79301	8.36443	8.97908	9.63733	10.30841	10.99055
21	6.97874	7.62525	8.20431	8.82738	9.49474	10.17506	10.86642
22	6.82081	7.47529	8.06181	8.69308	9.36923	10.05841	10.75855
23	6.67841	7.34074	7.93455	8.57378	9.25842	9.95608	10.66457
24	6.54961	7.21964	7.82057	8.46751	9.16033	9.86611	10.58251
25	6.43273	7.11032	7.71819	8.37261	9.07331	9.78682	10.51072

STATEMENT OF INCOME AND EXPENSES

ANNUAL INCOME

Salary (self)	_____
Salary (spouse)	_____
Dividends and Interest	_____
Capital Gains and Losses	_____
Rental Income	_____
Alimony, Child Support	_____
Tax Refunds	_____
Bonuses, Gifts, Misc. Income	_____
Total Income:	_____

ANNUAL EXPENSES

Federal Income Taxes	_____
State and Local Income Taxes	_____
Social Security Taxes Withheld	_____
Pension Contributions Withheld	_____
Rent/Mortgage Payments	_____
Utilities	_____
Home Maintenance/Renters/Homeowners Insurance	_____
Real Estate Taxes/Personal Property Taxes	_____
Health/Life Insurance	_____
Groceries	_____
Clothing Purchases/Laundry/Dry Cleaning	_____
Automobile Payments	_____
Other Debt Payments	_____
Unreimbursed Medical and Dental Expenses	_____
Child Care Expenses/Child Support	_____
Educational Expenses	_____
Charitable Contributions	_____
Entertainment/Vacations	_____
Total Expenses:	_____

Subtract Total Expenses from Total Income

Total Income	_____
Total Expenses	_____
Balance Remaining for Savings/Investments:	_____

STATEMENT OF NET WORTH

The following form reflects your assets (the value of what you own or have invested) minus your liabilities (the money you owe). If your assets exceed your liabilities, you have a positive net worth; if your liabilities are larger than your assets, you have a negative net worth.

ASSETS

	Today	**Estimated Value at Retirement**
Savings/Checking Accounts	_____	_____
Certificates of Deposit	_____	_____
U.S. Savings Bonds	_____	_____
Life Insurance (cash value)	_____	_____
Deferred Compensation Program	_____	_____
Pensions (market value)	_____	_____
Other Investments (market value)	_____	_____
IRA's (self and spouse)	_____	_____
Home/Other Real Estate (market value)	_____	_____
Business Interest	_____	_____
Personal Property	_____	_____
Other Assets	_____	_____
Total Assets:	_____	_____

LIABILITIES

Mortgage (balance due)	_____	_____
Automobile Loans	_____	_____
Installment Loans	_____	_____
Taxes Due	_____	_____
Business Debts	_____	_____
Total Liabilities:	_____	_____

Subtract Total Liabilities from Total Assets

Total Assets	_____	_____
Total Liabilities	_____	_____
Net Worth:	_____	_____

CASH FLOW DURING RETIREMENT

Annual Income

Social Security (self and spouse)	_____
Deferred Compensation Account	_____
Pension Income	_____
Saving and Investments	_____
Part-Time Work	_____
Other Income	_____
Total Income:	_____

Annual Expenses

Federal Income Taxes	_____
State and Local Income Taxes	_____
Social Security Taxes	_____
Rent/Mortgage Payments	_____
Utilities	_____
Maintenance/Repairs	_____
Homeowners/Renters/Personal Property Insurance	_____
Health/Life Insurance	_____
Clothing Purchases/Laundry/Dry Cleaning	_____
Automobile Payments	_____
Other Debt Payments	_____
Groceries	_____
Prescriptions, Medical/Dental Expenses	_____
Continuing Education	_____
Charitable Contributions	_____
Entertainment/Vacations	_____
Total Expenses:	_____

Obviously, if your expenses exceed your anticipated income, you cannot afford to retire. You may have to work several more years in order to save additional money and/or curtail expenses during retirement. Whatever you decide, don't try to convince yourself that you can reduce expenses to any great extent during retirement.

YOUR EXPECTED SOCIAL SECURITY BENEFIT

The following chart shows the approximate size of your expected monthly allowance from Social Security. The first column gives your average yearly employment earnings (in today's dollars) on which you paid Social Security taxes. The second column contains your approximate monthly benefit amount (in today's dollars) that you'll receive when eligible for full benefits.

Annual Earnings	Approximate Monthly Benefit
$10,000	$ 800
$20,000	$ 950
$30,000	$1,100
$40,000	$1,250
$58,000 or more	$1,400

The above amounts are for an average individual income earner retiring at age 65. If you retire at age 62, reduce the above amounts by 20%.

If you're married and one of you doesn't work, the non-working spouse collects 50% of what the working spouse collects. Working spouses are eligible for either individual benefits or 50% of their spouses' benefit, whichever amount is larger.

RETIREMENT WORKSHEET

The following example has been based on a Police and Fire employee (Plan A) for the City of Wichita. He is 45 years old and has been employed by the City of Wichita for ten years. He would like to retire at age 55. He will receive full benefits from the Police and Fire Retirement System. He has been depositing $100 into the deferred compensation program each month for the past ten years and will continue to deposit $100 per month for the next ten years. He has no other savings.

	Example	**Yourself**
1. Current gross annual salary.	$ 40,000	$_____
2. The annual amount your pension will provide (page 44 and 45).	$ 20,000	$_____
3. Total projected annual retirement income (line 2).	$ 20,000	$_____
4. Annual income you'd need if you retired today (80% of your current income from line 1).	$ 32,000	$_____
5. Using a 5% annual inflation rate, the annual income you'll need to retire at a future date (line 4 x multiplier from Table A on page 175).	$ 52,160	$_____
6. Income shortfall that needs to be covered from another source of income (subtract line 3 from line 5).	$ 32,160	$_____
7. The savings you should have at retirement to provide enough income to make up the shortfall (line 6 x 17.94 which assumes your retirement will last 25 years).	$ 576,950	$_____
8. What your deferred compensation will be worth when you retire (worksheets on page 60).	$ 58,178	$_____
9. Additional capital you'll need to have sufficient investment income (line 7 minus line 8).	$ 518,772	$_____
10. Annual amount you should be saving to retire at age 55 (line 9 x the multiplier from Table B on page 175).	$ 28,636	$_____

TABLE A
FUTURE VALUE MULTIPLIER

Years to Retirement	Multiplier
5	1.28
10	1.63
15	2.08
20	2.65
25	3.41
30	4.35
35	5.55
40	7.09

TABLE B
Savings Multiplier

Years to Retirement	Multiplier
5	.1471
10	.0552
15	.0275
20	.0154
25	.0092
30	.0057
35	.0036
40	.0024

NINE COSTLY MISTAKES

Not taking advantage of your deferred compensation program

Not buying a home

Ignoring the financial-aid tax system

Getting advice after a major decision

Not withholding the right amount of taxes

Not taking legal deductions

Ignoring tax considerations when investing money

Ignoring timing of events you can control

Not using tax advisors properly

- ONE LAST THING TO THINK ABOUT -

If you are eligible to retire and receive full retirement benefits from the Police and Fire Retirement System at age 55, consider contributing to your deferred compensation program while you are still working. Then, as the years go by, use your deferred compensation savings to supplement your retirement income in the event its value becomes eroded by inflation.

The Retirement Puzzle

Version 2004

Police and Fire Retirement System

The City of Wichita, Kansas