

That would seem to be a major incentive to pay off your mortgage (and most other debt) before you begin living on a fixed income. But most people don't recognize the costs associated with health care in later life, or how cash flow in retirement can be disrupted.

"The timing [of your retirement] is so important," Mr. Farrell says. "If you retired in 2000 — just before the markets fell — and you were carrying a lot of debt, that really put you behind the eight ball."

REALITY CHECK: One way to begin preparing for health-care costs in retirement is to open a health savings account. This tool allows people with high-deductible health plans to save pretax dollars — and eventually withdraw the money tax-free — to pay for Medicare Part B premiums, qualified long-term care premiums and out-of-pocket medical bills, among other expenses.

"My spouse is taking care of everything."

In many households, one person pays the bills, manages the money and oversees planning for retirement. And just as often, that person's spouse is more than content to remain financially detached.

If that describes your relationship, ignorance is not necessarily bliss.

The risks of one person holding the reins should be obvious: If the spouse handling the retirement finances becomes incapacitated or dies — or if you and your spouse divorce—the person who's been left in the dark could face retirement with little or no savings and no idea how to make up the shortfall. But many couples are approaching later life in just that fashion. Frequently, the victims are women.

"In general, women still aren't adequately prepared for their own retirement," says **Emily Sanders**, president and chief executive of Sanders Financial Management Inc., an advisory firm in Norcross, Ga. "They tend to put off thinking about it because they're so busy taking care of other people — first the children, and then elderly relatives."

A common mistake, Ms. Sanders says, arises in divorce cases, where a wife will agree to give up pension benefits in exchange for keeping the house. "They don't want to uproot the kids," she explains. But "they don't realize that they're robbing their own retirement."

REALITY CHECK: Beyond the basics (knowing where documents like wills and powers of attorney are kept), both spouses should be aware of: the size and location of all retirement accounts, investments and insurance policies; what funds are being directed to retirement accounts and other investments; whether beneficiary forms have been filled out for all accounts and whose names are on those forms; any and all debt; and how much money might be available from Social Security.

"I'm going to get an inheritance."

Yes, you might. But chances are good it will be smaller than you think.

The numbers certainly sound impressive: **Paul G. Schervish**, director of Boston College's Center on Wealth and Philanthropy, estimates that as much as \$41 trillion could be passed down through estates in the U.S. during the next five decades. But then there's the fine print. About two-thirds of the amount transferred will be concentrated among the wealthiest 7% of estates. ("It's top-heavy, as all wealth is," Dr. Schervish says.) And a good chunk of the money will go to taxes, settlement costs and charity.

Those factors will reduce the amount of money that boomers may inherit during the next several decades to about \$7.5 trillion. The whittling, though, doesn't stop there. Boomers' parents are living longer, and much of their money will go to annuities, health costs and long-term care expenses. In short, the odds of your seeing a windfall are slim.

A study published earlier this year by AARP, based on the Federal Reserve's most recent Survey of Consumer Finances, found that only 15% of boomers today anticipate receiving an inheritance. Among those boomer households that had received an inheritance by 2004, the median value was \$49,000.

REALITY CHECK: If you do receive an inheritance, the amount will likely be less than six figures. "That might help remodel your home or get your kids through college," Dr. Schervish says. "But for the vast majority of people, it won't solve their retirement issues."

"I'm going to get a pension — and it's safe."

It's one of the more mystifying assumptions in retirement planning: the firm belief among many workers that they will receive a pension check in retirement — even though hundreds of pension plans nationwide are underfunded, and growing numbers of companies are freezing or eliminating benefits.

Research published earlier this year by the Employee Benefit Research Institute found that 61% of surveyed workers anticipate receiving money from a pension in retirement. But only 40% of working couples currently are covered by such plans. And even though more and more companies, including giants like General Motors Corp., International Business Machines Corp. and Verizon Communications Inc., are cutting or freezing benefits, almost 70% of workers in the same survey said they were very confident or somewhat confident about their financial prospects in later life.

Today, insured pension plans nationwide are underfunded by about \$350 billion, according to the Pension Benefit Guaranty Corp. (The federal organization guarantees the payment of basic pension benefits — if the pension is insured — up to an annual cap currently set at \$47,659.) If you're approaching retirement and have the option of taking a lump sum from your pension or a monthly check, the latter choice could be a risky decision if your company's pension plan is ailing.

REALITY CHECK: **Arthur Conat**, executive director at accountants Ernst & Young, says workers need to take a "much more active role in their own retirement" and ask several questions about their pension plans: How financially sound is my employer? How well-funded is my plan? If my plan is not well-funded, is my ability to earn additional pension benefits going to be restricted? And if I plan to take a lump sum, will my plan's funding levels affect my ability to take that money?

If you're lucky enough to be covered by a pension, you can find out how to check on the health of your plan at the Pension Benefit Guaranty Corp. Web site, www.pbgc.gov.

"I won't need long-term care."

Actually, this is one assumption where the odds are slightly in your favor. Many Americans won't face large bills for extended care in later life. But those who do could end up exhausting their retirement savings.

A study published earlier this year in the health journal *Inquiry* by Lewin Group (a consulting firm in Falls Church, Va.) and professors at Pennsylvania State University and Georgetown University projects that 65% of all people age 65 will at some point in the future spend some time in their homes requiring long-term care. The good news: Family members will provide much of that assistance. The not-so-good news: Some 35% of 65-year-olds eventually will spend time in a nursing home, with 5% staying more than five years.

And who will pay for that care? About 45% of expenses, will be paid out of pocket, the authors estimate. (Government programs and private insurance will pick up the balance.) The average person would need to set aside \$21,000 at age 65 to pay those future bills, but 6% of patients will need to invest more than \$100,000 at age 65 to pay for future care.

REALITY CHECK: Every family should make the possibility of needing long-term care a part of their retirement planning. One possible solution — long-term care insurance — is pricey and complicated. That said, some insurers are starting to simplify policies, and more companies are giving employees the option of buying long-term care insurance at the office.

"If your net worth is less than \$3 million, you need to consider long-term care insurance," says **Ms. Sanders** in Georgia. Even for estates larger than that, she adds, such policies "can offer peace of mind."

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A sheriff walks into a saloon and shouts for everyone's attention. "Has anyone seen Brown Paper Jake?" he asks.

"What's he look like?" asks one shoddy-looking cowboy.

"Well," replies the Sheriff, "he wears a brown paper hat, a brown paper waistcoat, a brown paper shirt, brown paper boots, brown paper pants, and a brown paper jacket."

"So what's he wanted for?" asks the same cowboy.

"Rustlin'!"