Chapter 6 Budgeting and Financial Planning

Overview

This chapter encourages you to set personal financial goals; plan financially for retirement; examine your financial readiness for retirement; understand the importance of the budgeting process; use budget worksheets; and understand the method of determining how much you need to save or invest to reach your retirement goals.

BUDGETING & FINANCIAL PLANNING

In planning for retirement, the first question you probably should ask yourself is, "Can I afford to retire?" The easy answer is, "Sure, anybody can." The realistic answer depends on how long you will be retired and on what kind of lifestyle you want.

LIFE EXPECTANCY AND RETIREMENT

Before deciding that the answer is "Yes, I can afford to retire," it's important to think about how long you need to plan for in retirement. None of us knows how long we will live. But many people don't realize their retirement could last 25 years or more. View the Life Expectancy Chart here: Life Expectancy Chart.

Individual circumstances can make a difference. How long you live is affected by your lifestyle, economic status, state of health, and whether you keep physically fit. Genetic factors, race, and family history can also make a difference.

Planning for retirement means planning for age 85 as well as age 65. In our society people are living longer. Keep this in mind when you think about your finances as well as leisure, housing, and other aspects of your plan.

FINANCIAL GOALS

When making decisions about your retirement expenses, you need to figure out what you are going to do in retirement and how you plan to live. Have you taken some of those necessary self-assessment steps and set some goals? Have you outlined activities and figured out what you are going to do with your time? Next, it's important to list those personal goals in dollar terms.

Most people who retire want to be able to live the same way they did before retirement. If you don't do some financial planning, it is hard to know if that's possible or if you will need to make some changes in your lifestyle.

PLAN FOR WHAT YOU NEED

For most people, it is unrealistic to plan for income equal to what they earned the year before retirement. Few people have the financial resources to replace their salaries. Depending on your income, you should be able to keep your standard of living in retirement with an income between 60 percent and 80 percent of your former pre-tax earnings. This is a concept called "Equivalent Retirement Income." The higher your pre-retirement income, the smaller the percentage you will need, mostly because of lower taxes in retirement. If in retirement your income is lower, then your tax liability should also drop.

A rule of thumb to follow is that if your gross earnings are $50,999 to $70,000 a year, you should aim for an equivalent retirement income of 60 percent, while someone grossing $20,000 to $30,000 ought to aim for 80 percent. Seventy-five percent of your current salary is often used as a guide to determine retirement income needs.

There are some other changes in expenses you can look forward to in retirement. You should not have any work-related expenses, which can account for 5 percent of a person's budget. See the worksheet "How Much Does It Cost You to Go to Work?" to figure out what your savings might be. Unless you work, you won't owe Social Security payroll taxes anymore. Your housing costs will go down also as your mortgage, if you have one, is paid off. Look carefully at your life insurance coverage and see if you can cut back if you have children who are grown. Perhaps you are over-insured, and you can cash in a policy and buy an annuity to add to your monthly retirement income. Don't overlook the many off-peak time and senior citizen discounts available. If you are no longer working full-time, you'll have chances to take advantage of travel and entertainment discounts offered. The qualifying age can range from 55 to 65. Don't be shy about asking for an age-related discount. The money you save will be your own.

PLANNING YOUR FINANCIAL INDEPENDENCE FOR TOMORROW

Many of us look forward to retirement because of the freedom from work it can give us. But to enjoy the freedom to its fullest, you need financial security. That requires financial planning.

WHEN TO RETIRE

When you retire depends on two things: 1) when you want to stop working regularly, and 2) when you can afford to stop working.

The second question is not simple. There are a series of action steps you can take one at a time to eliminate some of the guesswork. As part of your financial planning, you should build a good base including:

- An emergency fund of three to six months of your current take-home pay
- Protection in the form of life, health, and property insurance
- Knowledge of what you'll receive in retirement income (estimates can be calculated for pension @ Pension Payment Calculator and Social Security @ My Social Security Account ; and
- Home ownership with some equity.

INCOME NEEDED

The most common concern of future retirees is "How much income will I need to maintain my lifestyle after I retire?" After you decide how you want to live in retirement, you'll need to figure out how much money you'll need.

An important step in planning for financial independence in retirement is to look at where you stand financially. The best way to do this is by preparing a personal balance sheet, or net worth statement. Net worth is the total value of everything you own – your assets – and all that you owe – your liabilities. A sample Net Worth Sheet, and other worksheets are included for you at the end of this chapter. Your completed statement will show you if you have sufficient financial resources to keep up the retirement lifestyle you want. If you don't, you can use the statement to help you plan extra savings and/or investments to meet future needs.

When you add up your net worth, you may be pleasantly surprised at the value of your assets. However, not all assets can be used as retirement income. For example, assets such as a car and home furnishings cannot be considered a possible source of retirement income.

A house or other property is an asset which could be used for future income. It is important your net worth statement show the amount of your assets available for retirement income.

As you fill in the asset side of the form, be sure to use actual market value or the amount you would receive if you sold that item.

BUDGETING PROCESS

When thinking about your financial readiness for retirement, it's best not to make it a guessing game. Part of your process should include planning a household budget. The word "budgeting" may sound as unpleasant as "dieting" to some. Most of us live on a cash flow system from paycheck to paycheck, not keeping track of where the money goes. It may be challenging to create a budget, but the result will be worthwhile.

To prepare for your retirement years, you must know and be in control of your monthly expenses. You must know whether you can meet these expenses on your retirement income or whether you must put more money in the bank right now.

The first step in budgeting is to determine your total current income. In addition to salary or wages of family members, include interest or dividends from savings and investments and any other income such as that from rental property.

Now, you need to figure out where your money goes. Therefore, you need to determine your current expenses. Worksheet 1, *"Estimated Monthly Cost of Living,"* will help you do this on a monthly basis. A good time to complete this step is when you're figuring out your income taxes and have all your financial records on hand. Major monthly expenses such as housing, utilities, and installment payments are easy to track. However, what about those unrecorded out-of-pocket expenses? Before you get started, it might be a good idea to begin saving receipts and marking down all cash spent. Do this for a month or two. Look at your spending and see if there are patterns. The only way to know where to cut back on expenses is to know exactly where all your money is going.

You will notice there are two columns in Worksheet 1. The first one is for you to calculate your current monthly expenses. The second is for you to forecast as if you were retired. Don't deal with future dollars just yet. Think ahead to the retirement goals you are setting and assign a cost to them. If you were to retire tomorrow or next week, how would things change? Would you be moving and making changes in your housing costs? How about transportation? Perhaps these expenses will go down if you are no longer going back and forth to work or paying for parking. Food costs can go down if you have more time at home to cook and use fewer expensive convenience foods. Clothing expenses may change if you no longer have to dress for work. Medical expenses, however, may go up as health insurance rates increase. Some long-term care costs are not paid for by Medicare or state health insurance. You will need to pay for these out of your budget or through private policies (See pages later in this section for information on Long-Term Care Insurance). Your recreation costs may increase depending on what you do with your leisure time. So, the second column involves an important step in the budgeting process, preparing a preliminary retirement budget.

There are no right or wrong amounts of money to spend on these categories. You should set up your spending on a pattern that shows what is important to you and will allow you to meet your goals.

Now fill out Worksheet 2, *Estimated Annual Cost of Living*, by using your monthly figures in the *After-Retirement* column on Worksheet 1. Add them up by category, multiply each by 12 and round off to the nearest hundred. Write these figures in the first column.

Unfortunately, these expenses will not stay the same from now until you retire, or during your retirement. The expenses on these two worksheets are based on today's prices. We all know that a dollar today may not be worth as much 10 or 20 years from now. This leads us to the next step in the budgeting process which is to adjust for cost-of-living increases.

To estimate your income needs at retirement, you need to predict what inflation will be. To do this, you need to determine when you'll retire and how long you may expect to live. Worksheet 3, *Inflation Factors,* can be used to estimate the inflation adjustment you need to make.

You can estimate future budget needs by using one inflation rate to adjust your total expenses for five years into the future, and another rate for 10 to 15 years.

The impact of inflation cannot be ignored. While Social Security benefits are currently tied to inflation rates, New York State retirement allowances are not, and do not go up unless the Legislature passes a specific law providing an increase. Inflation can seriously lower the purchasing power of a fixed income. The key is to plan for retirement income with inflation in mind. If your savings interest rates can beat inflation over the long run, you are ahead of the game.

As inflation goes up, so do interest rates and vice versa. Basically, your savings should earn enough interest at least to keep their buying power. For example, if it will take $1,100 two years from now to buy what $1,000 buys today; your investment should earn a rate of return that will give you $100 in interest over two years.

SOURCES OF RETIREMENT INCOME

To complete the steps in the budgeting process, you need to project sources and amounts of your retirement income. There are basically four sources of retirement income for retired New York State employees: Employee's Retirement System's retirement allowance (your pension), Social Security benefits, personal savings and investments, and earnings from post-retirement work. Each will be discussed in this *Guide* in more detail. Keep in mind while your pension is a terrific benefit, and it typically goes up in the future, the increase is usually enough to purchase a few cups of coffee.

On Worksheet 4*, Estimated Annual Income After Retirement*, record the amounts of your retirement income from various sources. You can calculate estimates for your pension from the New York State and Local Employees' Retirement System @ Pension Estimate Calculator and Social Security Social Security if you haven't already done so. Compare these figures to the annual expenses you estimated on Worksheet 2.

This completes the process of pulling together your financial profile or budget. It should help you to see whether you have spending or income gaps. If there are gaps, you can look at your savings and investment plans for solutions.

SAVINGS TIPS

If you do not have a savings program, it's never too late to start. Don't forget about the magic of interest over a longer period. Table 2 can help you figure how much to save monthly at a given interest rate so you will have money ready when you want it.

If you feel you need to cut back on expenses and put more money away for your retirement nest egg, you may want to take advantage of payroll deduction plans available to you as a New York State employee. You can arrange to have a set amount deducted from your pay and deposited to the Credit Union or Deferred Compensation Plan or used to buy U.S. Savings Bonds.

Table 2 -Monthly Savings to Reach a Goal					
			Years to Achieve Goal		
Total $ Needed	3	5	10	15	20
			At 6% Rate of Return		
$ 5,000	$120	$ 74	$ 31	$ 17	$ 11
10,000	240	149	63	36	23
15,000	360	223	96	54	34
20,000	480	297	126	72	45
			At 9% Rate of Return		
$ 5,000	$115	$ 66	$ 26	$ 13	$ 7
10,000	230	132	51	26	15
15,000	345	197	77	39	22
20,000	460	263	102	52	30
			At 12% Rate of Return		
$ 5,000	$110	$ 60	$ 21	$ 10	$ 5
10,000	220	121	43	20	10
15,000	330	182	64	30	15
20,000	440	242	86	40	20

NEW YORK STATE DEFERRED COMPENSATION PLAN

By joining the NYS Deferred Compensation Plan, you can benefit from saving before-tax dollars and or after-tax dollars. On the before-tax dollars you pay no federal or state income taxes on your contribution, or on interest earned, until you withdraw money during retirement. The after-tax dollars may be tax exempt on withdrawal.

Additional features of the Deferred Compensation Plan such as the “catch-up” provision, investment option specifics, fees, and other detailed information can be found in Chapter 8 of this *Guide.* You may contact a representative by calling toll free at 1-800-422-8463.

Table 3 - How Long Will Your Money Last?

This chart shows how long your money will last if you withdraw a fixed amount each year. An * means it will last indefinitely at that rate.

% of capital	Years money will last if invested at these rates:							
	5%	6%	7%	8%	9%	10%	11%	12%
8%	21	24	31	*	*	*	*	*
10%	15	16	18	21	27	*	*	*
12%	11	12	13	15	17	19	24	*
14%	10	10	11	12	12	14	15	18
16%	8	9	9	10	10	11	12	13
18%	7	7	8	8	9	9	10	10
20%	6	7	7	7	7	8	8	9

SAVINGS ROUTINES THAT WORK

- ***Pay yourself first***. Make savings part of your fixed expenses in your budget, much like your rent, mortgage, or utility payment.
- ***Save windfall income***. Try to save tax refunds, bonuses, overtime pay, gift money, refunds, rebates, and money saved by using cents-off coupons.
- ***Pay installments to yourself***. After you pay off an installment debt (car loan, furniture or appliance loan, etc.) continue to budget the loan payment, but put it in your savings account.
- ***Collect loose change***. Every week (or more often) empty out your pocket or wallet and put the change in a savings jar. Every other week or once a month deposit the change in your savings account.
- ***Try frugality***. Eliminate or cut back on something and put the money you don't spend in your savings.
- ***Break a habit***. Every time you don't buy a bagel on break, or you don't spend money in the vending machine, save the money you didn't spend.
- ***How long will my resources last?*** In these first steps figuring your assets and projected income requirements, the question heard most is "How long will my money last?" Many retirees fear outliving their savings. The chart in Table 3 may help in figuring how long your money will last if you start drawing it out.

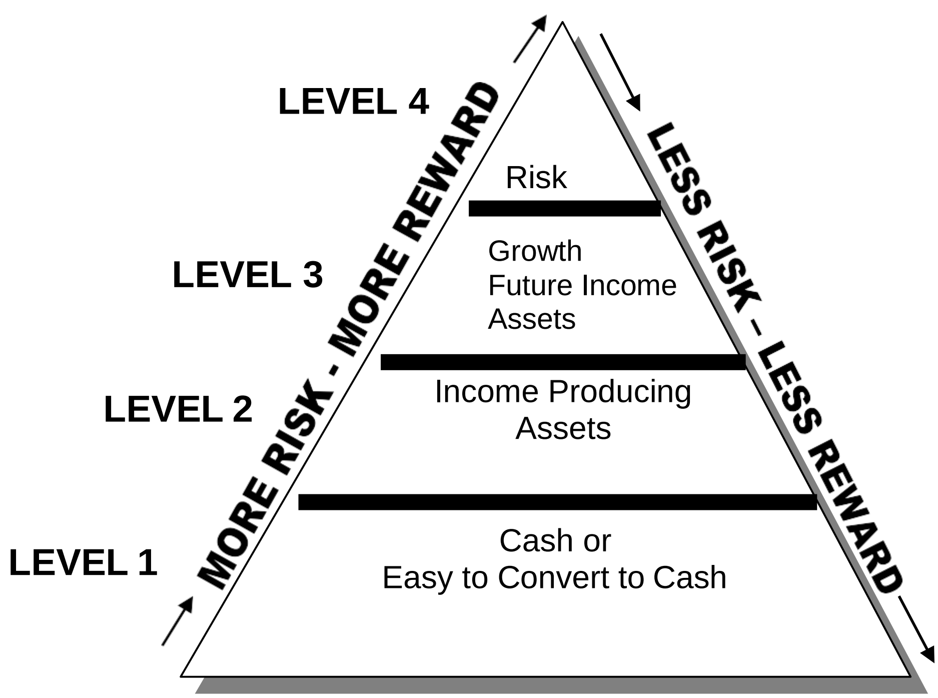
WILL MY ASSETS PRODUCE THE REQUIRED INCOME?

The action question becomes *"What must I do with my finances to make my retirement a reality?"* The further you are from retirement, the less exact is the process, but you can start by looking over your assets (from your net worth sheet) and change your planning as you go. You may have saved or invested in the past. For future planning though, a clear distinction must be made between savings and investments. With savings, the first deposit (often all capital) stays the same and earns either fixed or variable interest. Some credit unions refer to the interest on savings as dividends.

On the other hand, the first capital of investments can go up or down in value and may or may not pay interest or dividends depending on current type, and on the economic and market condition.

Look carefully at the pyramid shown in Figure 1 as your guide for a good financial plan. Assets in Level 1 are used for meeting daily expenses and those in Level 2 can be used to give you a regular source of income. If you have assets in Level 3 or 4, you could be in greater danger of losing capital.

FIGURE 1 – DISTRIBUTION OF RETIREMENT ASSETS



Place your own assets on the pyramid to figure your present use of savings or investments. A checklist follows of the assets making up the four levels of the pyramid, and general statements on income tax results.

Level 1
Cash or Easy to Convert Cash
Amount

$_________ Savings and Checking Accounts

_________ Credit Union

_________ Money Market Accounts

_________ Certificates of Deposit

Government Securities (*savings bonds, treasury bills, notes, and bonds)*

_________ Life Insurance *(with cash value)*

_________ Other

$_________ Total

Interest on these assets is taxable each year with the exception of interest on savings bonds and life insurance which is deferred until earnings are taken.

Level 2
Income Producing Assets
Amount

$________ Investment Real Estate

________ High Grade Corporate and Municipal Bonds

________ Government National Mortgage Association (Ginnie Mae)

________ Income Mutual Funds

________ Blue Chip and Preferred Stocks

________ Other

$___________Total

Level 3
Growth Assets
Amount

$_______ Real Estate Limited Partnership

________ Growth Stock

________ Growth Mutual Funds

________ Real Estate Investment Trusts

________ Other

$_________ Total

Growth in value can be reinvested and deferred until earnings are taken. Interest, rent, and dividends are currently taxable each year. Real estate limited partnerships allow individuals depreciation for tax purposes.

Level 4
High Risk Assets
Amount

$_______ Commodities Futures

________ Speculative Stocks

________ Low Grade Bonds

________ Collectibles

$________ Total

Growth in value can be reinvested and deferred until earnings are taken. Interest, rent, and dividends are currently taxable each year.

TWO OTHER ASSETS NOT LISTED ARE:

1. *Individual Retirement Account (IRA):* A retirement option which could use any of the above categories for saving or investment. In 2021, if you are covered by a qualified pension plan (including New York State Systems), an IRA contribution still can be made if your salary is under $65,000 and you're single, or under $104,000 if you're married. Over these income amounts, the contribution deduction is pro-rated. The remaining tax advantage is that the interest and dividends, etc., can defer tax until capital is received.

   Note: Contributions for IRA's are subject to change in the coming years and should be checked with financial institutions.

2. *Owning Your Home*: This investment gives service - a free place to live - rather than earnings. However, a home as an asset can be used, if necessary. It can be sold to gain money to invest; used as collateral for a loan to gain money to invest; used to apply for a reverse mortgage that allows a bank to make monthly payments to the owner in exchange for future ownership of the property.

As you look over your assets in the pyramid, two important questions about your retirement planning are: Which of these assets are available for your retirement income? Are the assets going up in value to give good working capital in the future?

SHOULD I BE INVESTING?

After you have figured how much you have, the next question is where to put those assets. The following conditions will probably have an impact on your decision.

Time is a very steady "worker" and you can use it to help increase your income. You have worked for your money and now your money should work for you. How long you keep it invested is an important factor. Table 4 shows the difference that time can make.

Inflation has already been discussed. Fixed rate savings by themselves cannot fight purchasing power that's going down. Your financial plan should be carefully balanced with some growth-oriented assets to give steady income that can grow to cover inflation.

You should not depend on any one source to provide all the income you will need during your retirement years. The more your income sources are diversified, or spread among different kinds of investments, the better your protection against inflation, the ups and down of the investment markets, and the legislative and regulatory changes affecting your pension and Social Security.

Table 4

Value of $1,000 investment for Specified Number of Years at Various Rates of Return

Annual Net Rate of Return (Compounded)	Number of Years $1,000 is Invested			
	5	8	10	12
4%	$1,217	$1,369	$1,480	$1,601
6%	1,338	1,594	1,791	2,012
8%	1,469	1,851	2,159	2,518
10%	1,611	2,144	2,594	3,138

How Much Does It Cost You to Go to Work?

I spend the following amounts each year on these work expenses:

1. **Lunches** $_______
2. **Coffee breaks** $_______
3. **Transportation** $_______
4. **Union dues** $_______
5. **"Salary" taxes and deductions** $_______
6. **Work clothing or uniforms** (This is only the beginning. You know of many other office and work expenses – they add up. Now find out these "hidden" expenses.) $_______
7. **Collections** (When a fellow worker gets engaged, married, has a baby, gets a promotion, gets sick, gets well, celebrates a birthday, retires - isn't someone always taking a collection?) $_______
8. **Laundry and dry cleaning** $_______
9. **Holidays** (Cards and gifts for fellow workers) $_______
10. **Picking up the tab** (The times you say "This one's on me.") $__
11. **Impulse buying** (When you pass shops on your way home, or to work, or during lunch hour, how often do you buy something you really don't need?) $__
12. **Home repairs** (How much do you spend on work you could do yourself if you had time?) $___
13. **Personal grooming** (How much extra does it cost you to look good five days a week?) $__
14. **Domestic help** (When your job prevents you from doing all the laundry and housework yourself.) $__
15. **Shopping** (You may lack time to comparison shop and take advantage of sales and specials, so your outlay for food, clothes, and household products are higher. How much higher?) $__

Net Worth Sheet

Assets
What You Own

Cash:

Cash on hand $ ____________
Checking accounts ____________
Savings accounts ____________
Money-market funds ____________
Life insurance cash value ____________
Money owed you ____________

Marketable Securities:

Stocks ____________
Bonds ____________
Government securities ____________
Mutual funds ____________
Other investments ____________

Personal Property:

Automobiles ____________
Household furnishings ____________
Art, antiques, other collectibles ____________
Clothing, furs ____________
Jewelry ____________
Other possessions ____________

Real Estate:

Homes ____________
Other properties ____________

Pension:

Vested portion of company plan ____________
Vested benefits ____________
IRA ____________
Keogh ____________

Long-term assets:

Equity in business ____________
Life insurance ____________
Annuities ____________

Total Assets: $____________

Liabilities
What You Owe

Current Bills:

Rent $____________
Utilities ____________
Charge accounts ____________
Credit cards ____________
Insurance premiums ____________
Alimony ____________
Child support ____________
Other bills ____________

Taxes:

Federal ____________
State ____________
Local ____________
Taxes on investments ____________
Other ____________

Mortgages:

Homes ____________
Other properties ____________

Debts to Individual Loans:

Auto ____________
Education ____________

Improvement ____________
Life insurance ____________
Other ____________

Total Liabilities: $ ____________

Total Assets - Total Liabilities = **Net Worth** $____________________________

Date_____________

Worksheet 1
Estimated *Monthly* Cost of Living

Monthly Average Shelter	Now	After Retirement
Rent	$	$
Mortgage payments	$	$
Real estate, city, school taxes	$	$
Insurance	$	$
Household Expenses and Maintenance		
House repair, yard care	$	$
Water, electric, gas, fuel oil	$	$
Cell phone,	$	$
Waste, disposal, other	$	$
TV, cable, Internet	$	$
Home Improvement and Upkeep		
Furniture, fixtures	$	$
Floor coverings	$	$
Laundry supplies, equipment	$	$
Kitchen equipment	$	$
Garden, yard equipment, supplies	$	$
Auto and Transport		
Monthly portion of purchase price	$	$
Repairs	$	$
Gas and oil	$	$
License and driver registration	$	$
Insurance	$	$
Other transportation	$	$
Food		
Food at home	$	$
Food away from home	$	$
Liquor and food for entertaining	$	$
Clothing		
New clothing for all in household	$	$
Laundry not done at home	$	$
Dry cleaning	$	$
Shoe repair	$	$

	Monthly Average	
	Now	After Retirement
Cosmetics and toiletries	$	$
Barber and beauty shop	$	$
Stationery, postage	$	$
Medical and Health		
Medicine and drugs	$	$
Doctor, dentist, eye specialist	$	$
Eyeglasses, hearing aides	$	$
Health insurance premiums	$	$
Recreation and Other		
Books, newspapers, magazines	$	$
Club memberships, dues	$	$
Movies, sports events, concerts	$	$
Sports and hobby equipment, supplies	$	$
Vacations, celebrations, weekend trips	$	$
Adult continuing education	$	$
Pets: cost, food, license	$	$
Contributions	$	$
Gifts	$	$
Taxes, Interest, Insurance		
U.S., State and local income tax	$	$
Personal property tax	$	$
Interest on loans	$	$
Life insurance premiums	$	$
Property insurance (not house)	$	$
Savings, Investments		
Banks, savings, and loan	$	$
Company pension, profit sharing plans	$	$
Stocks, bonds, real estate	$	$
Retirement: Keogh, IRA Deferred Compensation	$	$
Total Monthly Costs Now	$	
Total Monthly Costs After Retirement		$

Worksheet 2
Estimated *Annual* Cost of Living

Now multiply by 12 the total of monthly cost after retirement (Worksheet 1) to get your annual cost of living if you were retired.

	Totals, if you were retired now (*Round off* to even hundreds)	Inflation Factor	Your Budget
Shelter	$__________	______	$ __________
Household expenses and maintenance	$__________	______	$ __________
Home improvement and upkeep	$__________	______	$ __________
Automobile and upkeep	$__________	______	$ __________
Food	$__________	______	$ __________
Clothing	$__________	______	$ __________
Personal	$__________	______	$ __________
Medical and health	$__________	______	$ __________
Recreation and other	$__________	______	$ __________
Taxes, interest, insurance	$__________	______	$ __________
Savings, investments	$__________	______	$ __________
Any future irregular expense *(new roof, new car, new furnace)*	$__________	______	$ __________
Total	$__________	_______	$ _________

Worksheets 1, 2, 3 & 4 from CEH Topics, Dept. of Consumer Economics and Housing, NYS College of Human Ecology, Cornell University, Ithaca, NY 14853

Worksheet 3 Inflation Factors

1. Choose from the left-hand column the number of years into the future you want to project.

2. Choose a rate of inflation from the top row. This cannot be predicted accurately and will vary from year to year.

3. Find the appropriate inflation factor that matches your assumed inflation rate and years into the future. *For example, 5 years and 4 percent inflation yields a factor of 1.2.*

4. Write this factor in the second column Inflation Factor on Worksheet 2, under "Total." Multiply your total estimated retirement expenses by the inflation factor to get your inflated retirement expenses. *For example: $18,000 X 1.2 = $21,600*

YEARS	**PERCENT RATE OF INFLATION**							
	3%	4%	5%	6%	7%	8%	10%	12%
2	1.1	1.1	1.1	1.1	1.1	1.2	1.2	1.3
3	1.1	1.1	1.2	1.2	1.2	1.3	1.3	1.4
4	1.1	1.2	1.2	1.3	1.3	1.4	1.5	1.6
5	1.2	1.2	1.3	1.3	1.4	1.5	1.6	1.8
8	1.3	1.4	1.5	1.6	1.7	1.9	2.1	2.5
10	1.3	1.5	1.6	1.8	2.0	2.2	2.6	3.1
12	1.4	1.6	1.8	2.0	2.3	2.5	3.1	3.9
15	1.5	1.8	2.1	2.4	2.8	3.2	4.2	5.5
18	1.7	2.0	2.4	2.9	3.4	4.0	5.6	7.7
20	1.8	2.2	2.6	3.2	3.9	4.6	6.7	9.6
25	2.1	2.5	3.4	4.3	5.2	6.8	10.8	17.0

Worksheet 4
Estimated *Annual* Income After Retirement

1. Social Security

Partner #1 __________ $_________

Partner #2 _________ $_________

2. Pensions and Employer Benefits

Company $__________

State or Federal government _________

Veteran's __________

Union or other __________

Profit-sharing __________

Deferred pay __________

Other __________

3. Savings and Investments

IRA $__________

Keogh __________

Savings account (interest) _________

Money market (interest) __________

Treasury securities (interest) _________

Mutual funds (dividends, capital gains) __________

Stocks (dividends) __________

Bonds (interest) __________

Real estate (rent) __________

Farm/business rent or installment payments __________

Home equity conversion __________

Annuities __________

Other __________

4. Earnings

Salary, wages $_____

Commissions, royalties, fees $___

Partnership income $_____

5. Assets which could be liquidated

Profits would then be invested in interest/dividend earninginstruments. Interest then becomes part of income. Alternatively, a portion of the principal could be spent per year.

Real estate $____

Mutual funds ____

Stocks ____

Bonds ____

Antiques, collectibles ____

Farm/business __

Anticipated gifts or inheritance __

TOTAL for 1 to 5 $__

6. Possible deductions from income

Federal income tax ____

State/city income tax ____

Social security tax ____

TOTAL for 1-6 $____

Total Net Income $____

(1 to 5 minus 6)

(1 to 5 minus 6)

IS LONG-TERM CARE INSURANCE FOR YOU?

This question should be addressed by employees as they plan for the possibility of a long-term stay in a nursing home, assisted living facility, or extended home care. Medicare does not pay for custodial care and many people who can't afford the cost will have to resort to spending down their assets. Each state has different requirements for spend down so before making any spend down plans, consult with an elder law attorney. If one spouse is in a nursing home, however, Medicaid allows the other to keep much more in monthly income and assets. Check with your attorney. To protect your assets, you could obtain Long-Term Care (LTC) insurance that will partially or fully reimburse you for the cost of such care. Is the purchase of such insurance worth it for you? Here are some guidelines to make the right choice for your situation.

Do you have enough assets to protect to make the cost of the insurance worth it and do you have enough income to pay the cost of the insurance indefinitely without impacting your lifestyle? More importantly, do you have someone or an organization you would like to leave these assets to upon your death?

The second question is the easy part. If you have no need to pass on assets, it's probably safe to pass up the insurance and pay the cost of LTC out of your income and savings. After these are depleted, you can go on Medicaid. If you have assets you would like to pass on to others, how valuable should the assets be before you consider insurance? Experts are not in agreement on this issue but we can provide some guidelines.

First add up your assets that would be used to pay for LTC. These would include bank accounts, CDs, stocks, and bonds, mutual funds, market value of real estate (except your home), insurance policies (with cash value) IRAs, deferred compensation accounts, and valuable personal property. Then take the monthly cost of a nursing home and (the statewide monthly average for a shared room in a nursing home in 2024 is $435.00 per day *) add to this monthly cost any other costs for support of a spouse or maintenance of a home, less your expected monthly income from all sources. This result will be the monthly amount you will have to pay from your assets. Then divide this amount into the total assets available. You will then know how long your assets will pay for a nursing home stay. If you have enough assets to last more than 29 months, you may wish to self-insure. If you have less than 10 months of assets, don't bother with the insurance, there are other ways to transfer the assets to your heirs. In this situation, rely on Medicaid to pay for your long-term care.

Everyone's financial situation is unique, and experts do not always agree on the best way to determine if LTC insurance is worthwhile. However, financial experts have several ways of determining if you should consider LTC insurance. One guideline is not to pay more than 5% of your yearly income for the insurance or 1% of the value of your assets.

To obtain information about protecting your assets, talk to your financial planner, elder law attorney, or county Office for the Aging before making a decision. Be advised some of these experts may be biased toward solutions that will result in them earning money over and above any consulting fee. Veterans should contact the V.A., concerning LTC benefits.

So, you must weigh the cost of LTC insurance against the value of the assets you wish to protect and the chance you will require a long stay in a nursing home, assisted living facility, or extensive home care. One way to evaluate this is to review your health status and your family history. Have you or your parents or siblings experienced the types of afflictions that lead to the need for long-term care? Some of these conditions are arthritis, Alzheimer’s disease, stroke, dementia, Parkinson’s disease, diabetes, and obesity.

(The information above has been adapted/updated from the article on Long-Term Care by Tom Lally from the Retired Public Employees Association, Inc.

*(Data taken from the American Council on Aging)

RETIREMENT CHECKLIST

Budgeting & Financial Planning

As you approach retirement it is useful to determine what you know, what you've done, and what you still need to find out or do.

Read each of the questions below and circle your answer, "Yes or No." Next, for each "No" answer you gave, write down a few words in the space "I need to..." that will help you find the answers. You may want to use the same space to record other personal questions about this topic.

1. Do I figure out my net worth annually? **YES** **NO**

   I need to…

---

2. Have I figured out my current income and expenses to work out a budget? **YES** **NO**

   I need to…

---

3. Have I tried to figure out what my living expenses will be after retirement? **YES** **NO**

   I need to…

---

4. Is my spouse/partner familiar with our financial situation? **YES** **NO**

   I need to…

---

5. Will I try to live on my projected retirement income to see how I can keep my standard of living? **YES** **NO**

   I need to…

---

6. Have I reviewed my insurance policies to see whether they fit my current and future needs? **YES** **NO**

   I need to…

---

7. Do I understand the various methods available to make my money earn more? **YES** **NO**

   I need to…

---

8. Do I understand how long-term care insurance could protect my assets? **YES** **NO**

   I need to…

RESOURCES
Budgeting and Financial Planning

WEBSITES:

Q&A session on durable powers of attorney and revocable living trusts. From the Family Caregiver Alliance.
www.caregiver.org

The American Savings Education Council web site features "Saving Tools" with a variety of worksheets to help with retirement planning and saving.www.choosetosave.org/asec/

Making a Living Trust: Can You Do It Yourself? https://www.nolo.com/legal-encyclopedia/making-living-trust-yourself-29736.html

Find FAQs on wills and estate planning issues, read overviews of living trusts and probate, and peruse news updates on related issues.
https://www.nolo.com/legal-encyclopedia/new-york-estate-planning

PUBLICATIONS:

Alford, Ted., ***Charting an Early Retirement: Simple Planning & Investing Strategies,*** Retirement Planning Press, 2017.

Bryant Quinn., Jane
How to Make Your Money Last: The Indispensable Retirement Guide, Simon and Shuster, January 2017.

Clifford, Denis., ***Plan Your Estate,*** *(14th edition),* Quicken WillMaker, 2018.

Crane, John., ***The One-Number Budget: Why Traditional Budgets Fail and What to Do About It,*** August 2022.

Glover, Ryan, CFP., ***Preparing for Retirement 2018: A Comprehensive Guide to Financial Planning, (1st edition),*** Tarheel Advisors LLC, February, 2018.

Richard, Morgan., ***Personal Finance QuickStart Guide: The Simplified Beginner's Guide to Eliminating Financial Stress, Building Wealth, and Achieving Financial Freedom,*** October 2020.

Ramsey, Dave., ***The Total Money Makeover Workbook,*** Nelson Books, 2018.

Pfau, Wade., ***Retirement Planning Guidebook: Navigating the Important Decisions for Retirement Success,*** Retirement Researcher Media, September 2021.

OTHER RESOURCES:

For information on the **NYS Deferred Compensation Plan**, contact them at the number below or refer to Chapter 8 in this *Guide*.

NYS Deferred Compensation Plan
385 Jordan Troy
Troy, NY 12180
1-800-422-8463
www.nysdcp.com

WHAT YOU SHOULD KNOW ABOUT FINANCIAL PLANNERS

New York State Department of Law

Whether saving for the purchase of a home, the future educational needs of children, or for retirement, more and more Americans are consulting financial planners in order to realize their financial goals. It's estimated that well over 10 million Americans consult financial planners today and that 400,000 firms and individuals now claim to offer financial planning services in the United States.

New York State does have an Investment Adviser Law which provides that those giving securities investment advice for compensation – in other words those advising clients which securities they should buy, sell, or hold – register with the Attorney General. Information concerning the "advisor's" background, experience, and how securities are recommended to clients is on file with the Attorney General's office. These people must also register with the Securities and Exchange Commission (SEC). While some people calling themselves "financial planners" do register under this law, many do not.

Under New York State's Martin Act, the Attorney General has the power to regulate and prohibit fraud in the offer and sale of securities and commodities within New York State and originating from the State, and to put fraudulent financial planners out of business.

BE INFORMED

When considering a financial planner, the best defense against fraud and mismanagement is education. Know answers to the following questions:

What is a financial planner?

A financial planner is someone trained to design short-or long-term financial strategies for clients including plans for taxes, retirement, savings, tuition, estates, family budgets, and, often, investments. Financial planners may come from diverse backgrounds and include accountants, lawyers, insurance brokers, bankers, and securities brokers. Several colleges now offer accredited training in the financial planning field, requiring the completion of a course on investment planning and leading to a title of Certified Financial Planner (CFP) or a degree as a Chartered Financial Consultant (ChFC). Several trade associations keep lists of those who have completed such courses.

How do I know whether I need a financial planner?

You may wish to hire a financial planner if you have doubts about your own ability to make financial decisions, manage debt, or plan for your short-or long-term goals such as retirement or education costs.

How do I choose a financial planner?

In simple terms, choose a financial planner the way you would choose a doctor, a lawyer, or any other professional specialist. Get recommendations from friends or other professional advisers you use. Then ask the financial planner these questions:

- What is the financial planner's training and how long has the individual been working in the community? Beware of planners who operate out of small offices with post office box addresses. They may be fly-by-night operators running "boiler rooms" or Ponzi schemes—-paying one investor with the investment money of another.
- Will the planner provide you with references of three or more clients counseled for at least 2 years? A relatively new customer may be able to offer glowing recommendations but may not have been with the planner long enough to offer a balanced assessment of the planner's performance.
- If the planner will be giving you investment advice, will the planner provide a sample investment plan for someone like you? Will you be provided with a written plan stating an investment strategy for you, and will the planner review the plan with you on a regular basis? If not, the planner may be investing your money in ways more beneficial to the planner's financial interest than to yours, and the plan may be the same for everybody, regardless of individual needs.
- If the planner offers investment advice, is he or she (or their firm) registered with the Attorney General and the United States Securities and Exchange Commission as an investment advisor. Obtain a copy of the planner/advisor's "ADV" filing. Most important, how does the financial planner charge for services? Does the planner receive hourly or flat fees, or does the planner make money from commissions on the sale of investment products, stocks, bonds, commodities, art, coins, real estate, etc.? Many investors incorrectly assume financial planners are offering objective investment advice. You should know whether or not your financial planner will be making money from commissions on investments you make.

FOR MORE INFORMATION

If you have questions about a financial planner or investment advisor, including details of any background information or enforcement actions relating to the advisor, please contact the Investor Bureau and Securities Bureau of the Attorney General (see listing last page). For additional information, you may also contact your local Better Business Bureau.

Other Resources:

American College of Financial Services
270 S. Bryn Mawr Avenue
Bryn Mawr, Pennsylvania 19010
888-263-7265
http://www.theamericancollege.edu/

Certified Financial Planner Board of Standards, Inc.
1425 K Street NW #800
Washington, DC 20005
800-487-1497
www.cfp.net

Financial Planning Association
7535 E Hampden Avenue, Ste. 600
Denver, CO 80231
800-322-4237
www.plannersearch.org

Financial Planning Association of Metro NY
535 Fifth Avenue, 4th Floor
New York, NY 10017
800-322-4237 ext. 7187

https://www.financialplanningassociation.org/chapter/fpa-metro-new-york

Financial Planning Association of Central NY
209 Second St
Liverpool, NY 13088
315-513-8901
http://www.fpacny.org/

Financial Planning Association of Northeastern NY
P.O. Box 11565
Loudonville, NY 12211-0565
518-458-7774
https://www.fpa-neny.org/

The National Association of Personal Financial Advisors
8700 W. Bryn Mawr Avenue, Ste. 700N
Chicago, IL 60631
888-333-6659
https://www.napfa.org/

U.S. Securities and Exchange Commission Office of Investor Education & Advocacy
100 F Street, NE

Washington, DC 20549
800-732-0330
https://www.sec.gov/investor

OFFICE OF THE ATTORNEY GENERAL
INFORMATION & COMPLAINT LINE:
1-800-771-7755
www.ag.ny.gov

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Albany, New York 12224-0341.......518-776-2000

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New York, New York 10271-0332.......212-416-8000

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Binghamton, New York 13901-4433.......607-251-2764

55 Hanson Place, Suite 1080
Brooklyn, New York 11217-1523.......718-560-2040

Main Place Tower, Suite 300A, 350 Main Street
Buffalo, New York 14202-3473.......716-853-8400

300 Motor Parkway, Suite 230
Hauppauge, New York 11788.......631-231-2424

200 Old Country Road, Ste. 240
Mineola, New York 11501-4241.......516-248-3302

163 West 125th Street, Suite 1324
New York, New York 10027-8201.......212-364-6010

43 Durkee Street, Suite 700
Plattsburgh, New York 12901-2818.......518-562-3288

One Civic Center Plaza, Suite 401
Poughkeepsie, New York 12601-3157.......845-485-3900

144 Exchange Boulevard
Rochester, New York 14614-2176.......585-546-7430

615 Erie Boulevard W. Suite 102
Syracuse, New York 13204.......315-448-4800

207 Genesee Street, Room 508
Utica, New York 13501-2812.......315-864-2000

Dulles State Office Building 317
Washington Street
Watertown, New York 13601-3744.......315-523-6080