Kiplinger's

RETIREMENT PLANNING 2019

YOUR GUIDE TO A SECURE RETIREMENT

HOW MUCH YOU NEED TO SAVE

SEE OUR WORKSHEET p 16

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Boomer's Guide to Social Security

Updated for 2019
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A checklist for 10 years, 5 years and 1 year away p 8

How to create income for life p 56

Best funds for your 401(k) p 54

Navigating the Medicare maze p 70

5 great places to retire p 82

SUMMER 2019

FROM THE EDITOR

Kiplinger's PERSONAL FINANCE

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Boosting *Confidence*

How confident are you that you will be able to retire when you want—and have enough income to live comfortably throughout retirement? According to a recent national poll by Kiplinger and the financial firm Personal Capital, 65% of workers who are actively saving for retirement are at least somewhat confident that they have saved enough or will save enough to retire comfortably. That's a pretty encouraging number. But if you dig a little deeper, you discover that only 26% of respondents are *very* confident that they are on track. Most Americans still have doubts about their retirement security.

Confidence is about more than having a large nest egg or guaranteed income from Social Security or a pension. It's also about having a sound plan and information you can act on. This annual guide is designed to help you assess whether you are on track to retire when you want, and, if you aren't, to give you the tools—and the confidence—to set realistic goals.

Start by filling out the worksheet on page 16 to see how much you still need to save before you enter the next phase of your life. If you are within a decade of retirement, follow the steps to help you prepare in "Ready, Set, Retire," starting on page 8. Making sure you have a steady stream of income for the 30 or more years your retirement could last is a challenge, and we give you smart strategies in "Make Your Money Last," on page 56. We also have advice on managing your 401(k) account and other investments, planning for retirement if you're single, deciding when to take Social Security, navigating Medicare (as well as health insurance options for early retirees), and covering long-term-care expenses without busting your nest egg. If your retirement dreams include moving or buying a second home, take a look at our suggestions for great retirement destinations on page 82.

A little about us: Kiplinger is a publishing company committed to the highest standards of carefully reported, trusted content. We have published our monthly personal finance magazine since 1947 and have sent our business-forecasting newsletter to clients since 1923. Thanks for buying *Kiplinger's Retirement Planning Guide*. You are on your way to making all the right moves to ensure a satisfying, secure retirement.

Mark Solheim

Mark Solheim, *Editor*

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ASHLEY BLAKE

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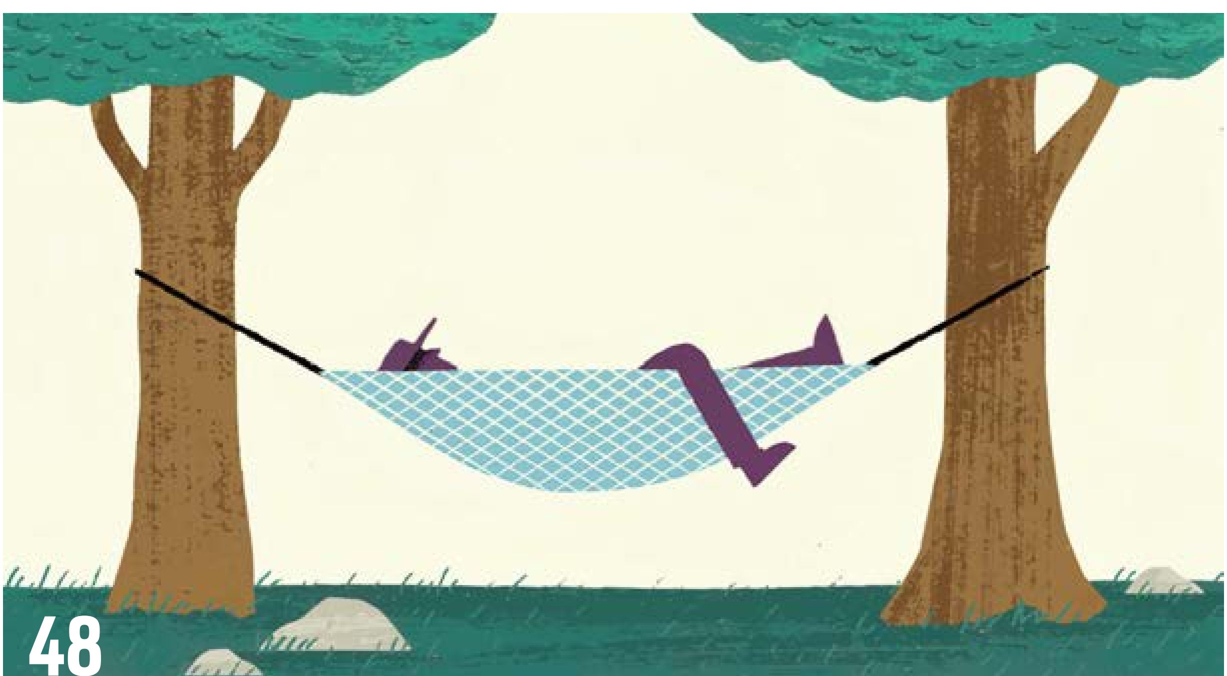

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CHRIS MADDEN

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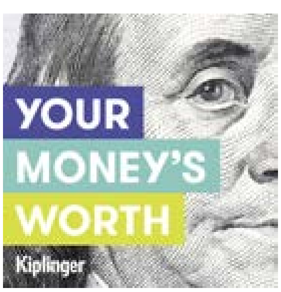
FREE, TRUSTED RETIREMENT PLANNING
ADVICE AT YOUR FINGERTIPS YEAR-ROUND

RETIREE TAX MAP

Our state-by-state guide helps you choose the right home for you and your nest egg. See how states tax various forms of retirement income, which ones offer property tax breaks for retirees and how states ultimately ding your estate.

- **kiplinger.com/links/retireetaxmap**



PODCAST

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- **kiplinger.com/links/podcasts**

TOOLS

Retirement Savings Calculator

Determine how much you need to save each month to meet your goals.

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Social Security Retirement Age

Determine when you're eligible to collect full Social Security benefits.

- **kiplinger.com/links/age**

RMD Calculator

Compute your required minimum distributions from a traditional IRA.

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When Your First RMD Is Due

Pinpoint when you must take your first IRA required minimum distribution.

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Whether you're almost there or have a few years to go, *Kiplinger's Retirement Report* will show you how to retire on your schedule.

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Ready, Set, **Retire**

FOR A SMOOTH RIDE TO RETIREMENT, TAKE THESE FINANCIAL STEPS WHEN YOU HAVE 10 YEARS, FIVE YEARS AND ONE YEAR TO GO.

BY EILEEN AMBROSE & SANDRA BLOCK

For most of your life, retirement may seem so far off that you give it only a passing thought when glancing at your 401(k) statement. Your twenties, thirties and forties are likely preoccupied with more-pressing life events—building a career, getting married, buying a house, raising children and saving for college. But once you enter your fifties and retirement is no longer a fuzzy concept looming on the horizon, it's important to make sure you'll be prepared for the day when you wrap up your career and move on to the next phase of your life. As retirement comes into focus, use this list of financial steps to follow 10 years, five years and one year before retirement to prepare for the transition. For each time frame, we've also listed key moves to make in your portfolio.

10 YEARS AWAY

Envision retirement. Now that you're only a decade away from retirement, it's time to start getting specific about what that will mean for you. For instance, will you travel, volunteer or work part-time? Will you move out of state, or will you stay in the same town but downsize to a smaller place?

This exercise might even help you reach your retirement financial goals quicker. A recent survey by investment manager Capital Group found that workers who first envisioned retirement were motivated to save nearly one-third more than they might otherwise.

If you're married, make sure the two of you compare notes about retirement. "Get on the same page with your spouse," says Judith Ward, senior financial planner with T. Rowe Price, adding that her husband had pictured retiring on a lake in Canada, but she had had something warmer in mind. "A lot of times spouses have a different vision for retirement."

The timing of retirement can also be an area of disagreement, particularly if one spouse is much older than the other. For some couples, the solution is for the older spouse to retire from a full-time job and work part-time until the second spouse is ready to retire.

Run the numbers. To maintain your lifestyle in retirement, your income from Social Security, investments, pensions and annuities will need to replace about 75% to 80% of your current gross income. (That's roughly what many live on now after 401(k) contributions and payroll

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taxes are deducted from their paychecks.)

If you work with a financial adviser, have him or her run projections to see if you are on course to meet your retirement target date—or what you need to do to get on track.

For do-it-yourselfers, you can get a quick check on where you stand using an online retirement calculator. There are many; check out the ones at www.fidelity.com/score and www.troweprice.com/ric, or try the one at kiplinger.com/links/retirementcalculator.

Calculators vary in their assumptions—say, for investment returns and inflation—so their projections will vary, too, says Missie Beach, a certified financial planner with Redwood Wealth Management, in Alpharetta, Ga. "Use several just to get an average," she advises.

Or, for a more customized projection, crunch your own numbers. Start your calculations by estimating what your annual expenses will likely be in retirement. They may decrease if, say, your mortgage will be paid off. But be realistic; spending on certain things, such as travel, may go up. And don't forget that inflation will take a toll. When running calculations for clients, Dana Anspach, a CFP with Sensible Money in Scottsdale, Ariz., uses a 5% annual inflation rate for health care and 3% for other expenses.

ONCE YOU HIT AGE 50, YOU CAN MAKE CATCH-UP CONTRIBUTIONS TO EMPLOYER RETIREMENT ACCOUNTS AND IRAS.

Next, add up your sources of guaranteed annual income in retirement, including Social Security and an annuity or pension. Subtract that income from your expenses. The result is how much you'll need to pull from your portfolio each year for living costs.

Your savings may need to last 30 years or more in retirement, so make sure your annual withdrawals don't deplete your portfolio too soon. One popular strategy for making your money last is the 4% rule. In the first year of retirement, you withdraw 4% from your 401(k) and other tax-deferred accounts, then increase the dollar amount of annual withdrawals by the previous year's inflation rate.

Accelerate savings. You're likely entering your peak earning years, plus you may have recently become an empty-nester and now have more disposable income. Instead of spending the extra cash, save it. Once you hit age 50, you can make catch-up contributions in tax-advantaged retirement accounts.

The annual contribution limits for traditional and Roth IRAs is $6,000 for 2019, plus an additional $1,000 if you're 50 or older. Workers this year will be able to salt away up to $19,000 in a 401(k), 403(b) or 457 plan, plus an extra $6,000 if you're 50 or older.

Try to spread your savings across accounts that are taxed differently—say, a pretax 401(k), a Roth IRA with tax-free withdrawals, and a taxable investment account—so you can better manage taxes in retirement based on which accounts you tap. Tax diversification, Beach says, "really helps with the distributions in retirement, controlling what goes on the tax return and controlling your tax bracket."

Open a health savings account. If you have a high-deductible health insurance plan, open a tax-friendly health savings account to go with it. Money goes into an HSA pretax (or it's tax deductible), it grows tax-deferred, and withdrawals to pay current medical bills or even those incurred well into retirement are tax-free. "That's the trifecta in terms of tax savings," Ward says.

The maximum annual contribution to an HSA for 2019 is $3,500 for singles and $7,000 for families, plus an extra $1,000 if you're 55 or older. To make the most of the tax advantages of an HSA, pay current medical bills out of pocket while you continue to invest in the HSA and allow the account to grow, says Melissa Sotudeh, a CFP with Halpern Financial, in Rockville, Md. "It is more valuable to have that growth for your future medical bills," she says. Once you enroll in Medicare, you can no longer make HSA contributions. (One caveat: You'll owe a 20% penalty and income taxes on withdrawals made for nonqualified purposes, although the penalty disappears once you turn 65.)

Pay down debt. Start chipping away at high-interest-rate debt, such as credit cards or personal loans.

Mortgage rates have been so low for so long that homeowners need to weigh whether they are better off accelerating house payments so they're mortgage-free at retirement or investing the money instead. Another factor to consider: Now that the standard deduction on federal tax returns has nearly doubled, you'll be less likely to deduct your mortgage interest.

"If wiping out all your debt helps you sleep better, then by all means pay it off, even if you have a 3.5% mortgage," Beach says. "But keeping that 3.5% in place is not going to hurt you because over the long term your portfolio should earn more than 3.5%."

Consider long-term care. Long-term care isn't covered by Medicare—and it's not cheap. The median annual cost in 2018 was $48,000 for assisted living, $50,340 for a home health aide who works 44 hours a week and $100,380 for a private room in a nursing home, reports Genworth, a long-term-care insurer. You could pay the bills out of pocket if you have the assets, or buy a long-term-care insurance policy. (For more long-term-care strategies, see "Paying for Long-Term Care," on page 74.)

5 YEARS AWAY

Check in with Social Security. Even if you've saved diligently, Social Security benefits will probably account for more than one-third of your retirement income. If you haven't already done so, sign up for an online account (www.ssa.gov/myaccount) to get a projection of your benefit. It will be based on your highest 35 years of earnings. Review your earnings history to make sure you're receiving credit for every year you worked. Earnings could be missing from your record if an employer reported your earnings using the wrong name or Social Security number.

Getting your benefits estimate will also help you determine how much more you need to save—and how much longer you may need to work—to maintain your lifestyle once you retire. And if you're married, now is a good time to learn about claiming strategies to maximize the benefits for both of you over your lifetimes (see "Social Security: Now or Later?" on page 62).

Portfolio Checkup

10 years out. If you haven't changed your mix of stocks, bonds and cash for many years, your portfolio is likely overloaded with stocks. You'll still need stocks to keep up with inflation over time. But you'll also need to think about how much risk you can take with your portfolio without upending your retirement plans.

For a moderate-risk portfolio, consider holding up to 65% in diversified stock funds. About two-thirds of that should be in U.S. stocks and one-third in foreign stocks. For the rest of the portfolio, invest in diversified short- and intermediate-term bond funds.

Besides stocks and bonds, you should have up to six months' worth of living expenses in an emergency fund in case, say, you lose your job or experience a health crisis and need money to pay the bills. Thanks to rising interest rates in recent years, savers can earn more on their cash, particularly at online banks and credit unions.

Five years out. Take more risk off the table by lowering your exposure to stocks to 60% of your portfolio, with the rest in bonds. Also, increase the cash cushion in your emergency fund so you have enough to cover one year's worth of expenses in case a layoff or health issue forces you to retire early.

One year out. With a year to go, the mix for a moderate-risk portfolio is 50% to 60% stocks, with the rest in bonds. Now is the time to develop a "bucket" system to protect against one of the biggest risks you could encounter as a new retiree: being forced to sell securities that have fallen in value after a stock market plunge to pay your bills. Basically, you divide your retirement nest egg into three buckets, based on when you'll need the money (see "Make Your Money Last," on page 56).

With the bucket system, if the stock market plunges, you will have enough in cash and bonds that you won't have to touch your stocks for more than a decade—plenty of time for them to recover. After you're retired, review your cash bucket annually to see if it needs to be replenished from the longer-term buckets.

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Test the waters. If you're planning to move when you retire, target several destinations and spend some time there after the summer tourists have decamped. Get a short-term rental in the area for a couple of weeks at different times of the year and try to live like a local. Make an effort to meet other people in the community who share your interests. Finding the right place to live is about "more than nice weather," says Paul Irving, chairman of the Milken Institute Center for the Future of Aging. "It's about the opportunity to stay active and engaged." The Milken Institute's Best Cities for Successful Aging (http://successfulaging.milkeninstitute.org) ranks 381 cities based on criteria that are important to retirees, from transportation options to employment opportunities. (For more picks, see "Five Awesome Places to Retire," on page 82.)

Also, health care will become increasingly important as you age, so check out local hospitals and other medical services. The Centers for Medicare and Medicaid rate hospitals based on 57 measures, ranging from infection rates to patient satisfaction surveys (see www.medicare.gov/hospitalcompare/Data/About.html).

Spending time in the community will also give you a better sense of the cost of living. If you're considering moving to another state, research state and local taxes, too. Some states exclude a significant portion of retirement income from state taxes, while others tax almost all of your income. Some have no income tax but may blindside you with high property or sales taxes.

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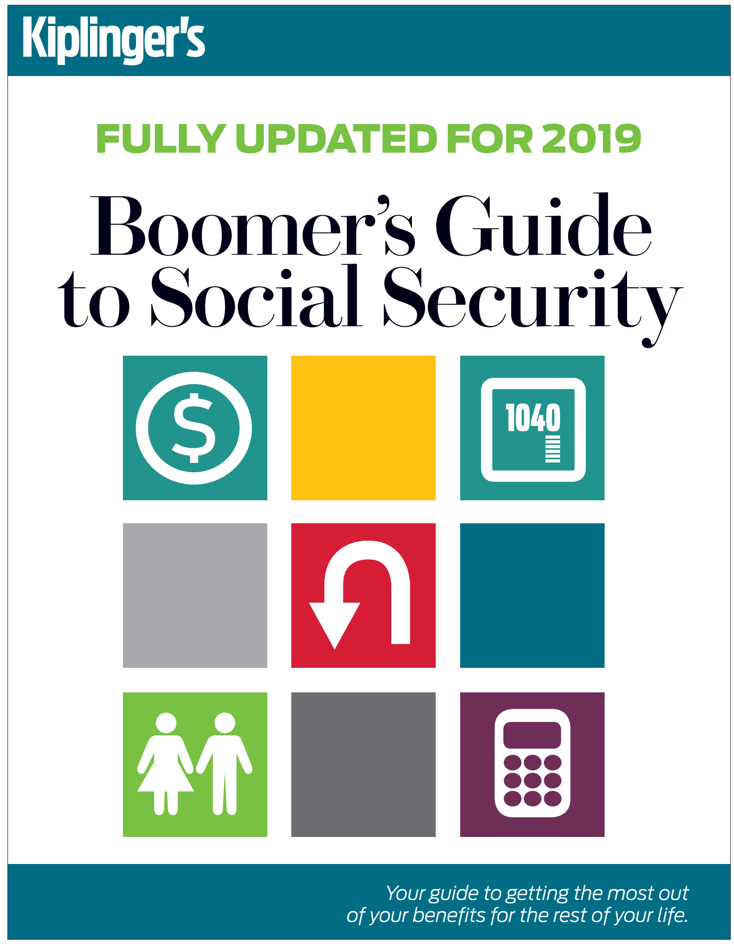
Boomer's Guide to Social Security

Get ***Kiplinger's Boomer's Guide to Social Security*** ($29.95 value) FREE with your purchase of ***Kiplinger's Retirement Planning 2019***!



The timing of when you claim Social Security benefits – you can do so anytime between the age of 62 and 70 – is one of the most important decisions you'll make about your retirement. The best choice can add tens of thousands of dollars to how much you'll collect over your lifetime. A mistake could cost you dearly. This guide unravels Social Security's notoriously complicated rules to serve as your easy-to-understand roadmap for making the right decisions at the right time. And this exclusive offer makes it free for anyone who purchases ***Kiplinger's Retirement Planning 2019***.

No matter your age, *Kiplinger's Retirement Planning 2019* plus the *Boomer's Guide* will set you on a steady course toward financial security in retirement.

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Check out Kiplinger's retiree tax map on page 31 for the lowdown on how states tax retirees.

Get a reality check from a pro. Even if you have successfully managed your finances, this is a good time to sit down with a financial professional to make sure that you are on track to meet your retirement goals. One of the most important things a financial planner can do is help you come up with a realistic estimate of your living expenses in retirement and determine whether you'll have enough income to cover them—an update to the numbers you crunched when you were 10 years away from retirement. That's particularly important if you plan to retire before you are eligible for Medicare, says Marianela Collado, a CFP in Plantation, Fla. Many people underestimate the cost of paying for health insurance, she says.

If your planner gives you bad news, you still have time to make some changes, says Milo Benningfield, a CFP in San Francisco. "If you'll need to work a couple of years longer, you need to know that now," he says. Another option is to downsize before retirement to free up more cash.

Plan your second act. Many boomers don't really want to retire—they just want to get out from behind their desks and do something meaningful and different. If a second act is in your future, it's not too soon to start exploring your options, says Marci Alboher, author of *The Encore Career Handbook*.

If you want to volunteer in retirement, start learning more about organizations that interest you, she says. VolunteerMatch.org, which lets you search nonprofits in your community, is a good place to start. Offer to serve on committees or act as an adviser to get an idea of whether it's a good fit. "It takes a while to find where you want to have an impact and find an organization that will use your talent," Alboher says.

If you'd like to earn a little extra income while following your passion, start developing the skills you'll need, Alboher says. For example, most states offer alternative certification programs for people who want to pursue a second career in teaching. For more information, check the website for your state's department of education, or go to www.alternativecertification.org.

Consider phased retirement. If your employer allows you to cut back on your hours—with a more flexible schedule, for example, or by switching to a part-time position—you can get a better handle on your post-retirement lifestyle, along with what it will be like to live on a budget.

Only about 9% of employers offer a formal phased-retirement program, according to a survey by human resources consultant Willis Towers Watson. But many companies will consider phased retirement on an individual basis, says Alan Glickstein, managing director for retirement at Willis Towers Watson. "If it's not listed as an official benefit, that doesn't mean it's not available." If your employer doesn't have a formal phased-retirement program, give your boss plenty of time to consider your request. You should also be prepared to discuss whether you will be able to keep your health insurance and other employee benefits.

THIS IS A GOOD TIME TO SIT DOWN WITH A FINANCIAL PROFESSIONAL TO MAKE SURE YOU ARE ON TRACK TO MEET YOUR RETIREMENT GOALS.

Your chances of success are greatly improved if you possess institutional knowledge that your company values. More than half of large employers believe the loss of older workers to retirement represents a significant risk over the next five years, and about half say they'll have difficulty finding replacement workers with similar knowledge and skills, according to Willis Towers Watson.

If phased retirement is off the table, another option is to leave your job and work as an independent contractor. This arrangement offers flexibility—you're typically not tied to a desk or a 40-hour workweek—and additional income. But you probably won't receive employee benefits, so when negotiating your rates, take into account the cost of buying your own health insurance if you won't be eligible for Medicare.

Review your life insurance. If you have a permanent life insurance policy and no longer need the death benefit, you have other options. You may be able to convert your policy to an immediate annuity through what's known as a 1035 exchange. You'll lose the death benefit, but you'll lock in monthly income for life or for a specific number of years.

Alternatively, you could hold on to the policy as a source of extra cash for emergencies. You can withdraw from the policy's cash-value account at any time, tax-free. You can also borrow against your policy, typically at interest rates ranging from 5% to 8%. If you don't repay the loan, or pay back only part of it, the balance will be deducted from the death benefit when you die.

1 YEAR AWAY

Decide when you'll take Social Security. You can claim benefits as early as age 62, and if you retire early, you may need the money to pay health insurance and other expenses. Keep in mind, though, that your benefits will be permanently reduced by at least 25%. By waiting until full retirement age—66 or 67 for most baby boomers—you'll receive 100% of the benefits you've earned. Wait past then to claim and your payouts will grow by 8% a year until you reach age 70.

Simplify your finances. Maybe you've collected multiple bank and brokerage accounts, IRAs, 401(k)s or other retirement accounts along the way. (If you lost sight of an account, search for it at www.missingmoney.com or www.unclaimed.org.)

Consolidate small accounts to make it easier to track assets, reduce paperwork and possibly save money. "You may be able to enjoy some economies of scale by doing some aggregation with a single provider," says Christine Benz, director of personal finance at Morningstar, an investment research company. "You might, for example, be able to hit the threshold for cheaper expense ratios."

Simplifying finances will also make it easier for someone else to step in to manage your affairs, if needed.

Do your Medicare homework. Navigating Medicare is difficult, and the barrage of insurance pitches you'll get as you approach 65 only adds to the confusion. Start educating yourself about Medicare and how it works to avoid coverage gaps when you leave your job. Social Security

Talk to Human Resources

Your HR department can help you avoid leaving money on the table when you walk out the door for the last time. For example, you may need to work until a specific date to qualify for your annual bonus, profit-sharing payout or 401(k) match. You should also ask whether you'll be paid for unused vacation days (if not, start planning that vacation now).

Health benefits. Get the lowdown on any retiree health benefits the company provides, particularly if you plan to retire before you're eligible for Medicare.

401(k) or IRA? If you'd like to leave your savings in your 401(k) instead of rolling the money into an IRA, find out whether you can take distributions when you need them. Some companies will allow withdrawals from a plan on a monthly, quarterly or as-needed basis but may charge a transaction fee. Others require you either to leave your money in the plan or to take it all out at once.

Pension options. If you're eligible for a traditional pension, review your options for taking a monthly payout versus a lump-sum payment. You'll also be able to determine whether working another year or two will significantly increase your pension. That may not be the case if you'll receive it in a lump sum, says Glickstein, of Willis Towers Watson. Interest rates are used to calculate the value of lump-sum pensions, and when rates go up, the value of lump-sum pensions goes down. When rates are rising, working another year may not increase a lump sum, and could even cause the amount to decline, Glickstein says.

beneficiaries are automatically enrolled in Medicare parts A and B when they turn 65. But people who delay Social Security until full retirement age or later—which is a good idea if you're still working—are on their own.

Most individuals don't pay premiums for Medicare Part A, which covers hospital care. For that reason, it usually makes sense to sign up at age 65, at www.socialsecurity.gov, even if you're still working and covered by your employer's insurance. If you're covered by your employer's plan, you may want to opt out of Part B, which covers doctor visits and outpatient services and charges you a monthly premium. Likewise, you may want to wait to sign up for Part D, which covers prescription drugs, until you leave your job. Check with your employer to be sure its coverage is creditable—which means it's at least as good as Medicare's coverage. If not, you'll face penalties when you sign up for Part D. (For more information, see "Navigating the Medicare Maze," on page 70.)

Buy an immediate or deferred annuity (or not). If your employer doesn't offer a traditional pension, you may want to go the DIY route and buy an immediate annuity. With an immediate annuity, you hand an insurance company a lump sum in exchange for a monthly paycheck for the rest of your life (and your spouse's life, in the case of a joint-and-survivor annuity) or for a specific number of years. One strategy is to calculate your fixed retirement expenses, such as utility bills, a mortgage and car insurance, and buy an annuity that will cover those costs. You can get an idea of how much you'll need to spend to get a specific monthly payout at www.immediateannuities.com.

Or you could buy a deferred income annuity in your fifties or sixties. Deferred annuities provide regular income in your later years; their payments don't begin until at least 10 years after you buy them. They are significantly less expensive than immediate annuities, but unless you sign up for survivor or return-of-premium benefits, which will reduce your payout, your heirs will get nothing if you die before payments begin.

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Make Sure You're **Saving Enough**

USE OUR WORKSHEET TO CRUNCH THE NUMBERS AND SEE IF YOU NEED TO BOOST YOUR SAVINGS.

No matter how many years away from retirement you are, you should have at least some idea of how much income you'll need in order to maintain your standard of living once you're out of the workforce. Not surprisingly, researchers, financial institutions and financial planners offer to help you figure the amount you need in savings, from multiples of final salary to percentages pegged to your preretirement income. But no one formula fits every person or life stage. The worksheet on page 19 lets you personalize the numbers.

1 How much income will you need in retirement? Start with your current income (and your spouse's, if you're married), and apply a growth factor from Table 1. Assume, for example, that inflation will average 3% a year between now and the time you retire (that's close to the long-term historical average) and that your salary will keep up. If you plan to retire in five years, find the number at the place where 5 and 3% intersect on the table: 1.16. Enter this factor on line B, multiply to find your estimated income at retirement, and put the result on line C.

A rule of thumb suggests you'll need 75% to 80% of that income to maintain your current lifestyle in retirement. In most cases, 80% is a good ballpark estimate for the purposes of the worksheet. Even better: Use a budget worksheet (such as the one at www.analyzenow.com; click on "Computer Programs") to anticipate your expenses (in today's dollars), apply the same growth factor to that figure and calculate what that is as a percentage of your final salary. Either way, enter the percentage on line D and multiply to get your target retirement income on line E.

Setting your replacement-income number at 70% to 85% of preretirement income isn't meant to make you skimp in your old age. Some costs, such as payroll taxes, work expenses and money set aside for retirement saving, will disappear, and others, such as your income taxes, could drop. But some costs will likely rise, including what you pay for health care and, perhaps, golf-course fees, travel and charitable gifts.

2 How much will you get from Social Security and pensions? Although the Social Security Administration no longer mails annual statements of estimated retirement benefits to most workers, you can get a solid estimate of your future benefits by visiting www.ssa.gov, establishing a "my Social Security" account and viewing your personalized Social Security statement. (For more about claiming benefits, see "Social Security: Now or Later?" on page 62.) Multiply your monthly Social Security benefit (including your spouse's, if you are calculating the bottom line for both of you) by 12 and write it on line F.

Because your estimate will be in today's dollars, you need to adjust it for inflation. To do so, select the 3% inflation factor from Table 1 that corresponds to the approximate number of years before you retire and enter it on line G. The result is the future value of your retirement benefits (line H).

If you have a defined-benefit pension plan, ask someone in your company's human resources department to estimate your monthly benefit at retirement age. Enter the amount on line I.

Add lines H and I together to come up with your retirement income from guaranteed sources and enter the sum on line J.

3 How big a nest egg do you need? Line M is the difference between your target annual retirement income (line K) and your guaranteed benefits (line L). It has to come from 401(k)s, IRAs and other savings.

A major factor in your calculation is how long your retirement will last. According to government statistics, a 65-year-old man is expected to live about 19 more years, while a woman of the same age has a life expectancy of nearly 22 more years. Those numbers are averages, meaning lots of us will live longer. To be conservative, assume you will live to age 90. But if you have a history of longevity in your family, assume you will live to age 95 or even 100.

Table 2 will help you determine how big your nest egg needs to be, depending on the length of your retirement and how you invest after you retire. Assume a 50% allocation to stocks, but you may choose to be more or less aggressive, depending on your tolerance for risk and where you are in retirement. The table assumes an initial withdrawal rate of 4%. (For more on smart ways to allocate your investments, see "Safeguard Your Portfolio," on page 40. "Make Your Money Last," on page 56, discusses the bucket strategy and other ways to create income during retirement without depleting your nest egg.)

From Table 2, pick the number of years that comes closest to how long your money has to last after you retire. For example, if you want your nest egg to last 25 years and you expect to invest 50% of your portfolio in stocks after you retire, find the point where 25 and 50% intersect. Enter that factor (in this case, 22.1) on line N, and multiply it by line M to come up with your nest-egg goal (line O).

4 How much have you already accumulated? Add up everything in your and your spouse's 401(k)s, traditional and Roth IRAs, and any other tax-favored accounts, as well as other money earmarked for retirement. Enter the total on line P, then adjust it for anticipated growth between now and your retirement date, using a growth factor from Table 1. For example, if you have $500,000 now in a balanced portfolio and expect it to grow 6% a year for five years, multiply by 1.34. That's $670,000.

5 How much will you draw from home equity? If you sell your house at retirement and buy or rent something less expensive, the leftover cash becomes part of your nest egg. Because the first $250,000 of profit from the sale of a home is tax-free ($500,000 if you are married and file a joint return), it's unlikely that taxes will cut into your profit. (To qualify for tax-free treatment, you must have owned and lived in the home for two of the five years prior to selling it.)

To get a quick-and-dirty estimate of how much home equity you can count on, take the value of your home today (line S) and multiply it by a growth factor from Table 1, assuming a 3% or 4% annual growth rate over the years you have until retirement (line T). Subtract your projected mortgage balance at that time and the cash you expect to earmark for a new home (line V), and enter the result on line W. (Another cash-generating strategy is to remain in your home and tap some of your home equity through a reverse mortgage. It doesn't have to be repaid until the last surviving borrower dies, sells the house or moves out for at least 12 months.)

6 How much more do you need to save? The shortfall between your nest-egg goal (line X) and the projected value of your other assets (line Y) is the amount you are going to have to accumulate with new savings (line Z).

Multiply that amount by a savings-target factor in Table 3 to see how much you need

KIP TIP

Below is how much income you'll need to maintain buying power in retirement, assuming a starting income of $100,000 and 3% annual inflation.

In 10 years, you'll need **$134,392**

In 20 years, you'll need **$180,611**

In 30 years, you'll need **$242,726**

to save each month between now and retirement. This includes the amount you are currently saving and any employer match for your 401(k) or other retirement-plan contributions. It also assumes that in future years your monthly savings, like your salary, will increase by 3% a year.

If you need, say, an extra $400,000 over the next 10 years and expect your investments to earn an average 7% return, then multiply your shortfall by 0.00517 (the factor where 7% and 10 years intersect). The result—$2,068—is how much you need to save each month to build your nest egg.

No can do? You may decide to work longer or cut expenses. But don't dismiss the idea of saving enough to leave the 9-to-5 by the time you're 65 or 66. Even if the gap looks daunting, you can make headway, especially if you've finished putting the kids through college and you have fewer expenses. Say you're 55, earn $80,000 a year and have nothing saved for retirement. You could supercharge your savings by setting aside $25,000 in your 401(k) each year for the next 10 years. That $25,000 combines the annual maximum for people younger than 50 ($19,000 in 2019) and the annual catch-up amount for people 50 and older ($6,000).

If your employer matches 50% on the first 6% of pay and your investments earn an annualized 7%, you'd amass $405,000 by the time you reach 65. If you get raises along the way—which would boost the size of the employer match—you could rack up substantially more. And that doesn't include your spouse's savings.

One final thought: The worksheet does not factor in taxes, so your spendable income in retirement will be less. You'll owe income tax on payouts from employer-sponsored pensions, withdrawals from tax-deferred retirement accounts and perhaps some, but not more than 85%, of your Social Security benefits. If you buy an immediate annuity with after-tax dollars, part of each payment will be taxable and part will be tax-free (the insurance company will tell you what's what). Distributions from Roth IRAs, as well as at least 15% of your Social Security benefits, are tax-free. K

KIPTIP

Would you rather use an interactive version of this worksheet? Go to kiplinger.com/links/retirementcalculator.

WORKSHEET

How Much You Need to Save to Reach Your Goal

Use the following tables in conjunction with the step-by-step directions in the story to fill out the worksheet at right.

The money-growth and inflation factors in Table 1 will help you complete steps 1, 2, 4 and 5.

Table 1 Money-growth and inflation factors

YEARS TO RETIREMENT	ANNUAL GROWTH RATE 2%	3%	4%	6%	8%	10%
5	1.10	1.16	1.22	1.34	1.47	1.61
10	1.22	1.34	1.48	1.79	2.16	2.59
15	1.35	1.56	1.80	2.40	3.17	4.18
20	1.49	1.81	2.19	3.21	4.66	6.73
25	1.64	2.09	2.67	4.29	6.85	10.83
30	1.81	2.43	3.24	5.74	10.06	17.45

Use Table 2 to calculate how much you need to save to generate retirement income over various periods (Step 3).

Table 2 Nest-egg factors

YEARS IN RETIREMENT	STOCKS AS % OF RETIREMENT PORTFOLIO 35%	50%	65%
20	19.5	18.1	16.7
25	24.2	22.1	20.0
30	28.8	25.8	23.0
35	33.4	29.4	25.8

Table 3 estimates the growth potential of your savings given different annual rates of return and years until retirement. Use it to complete Step 6.

Table 3 Savings-target factors

YEARS TO RETIREMENT	ANNUAL COMPOUNDED RATE OF RETURN 6%	7%	8%	10%
5	0.01354	0.01327	0.01301	0.01250
10	0.00541	0.00517	0.00493	0.00449
15	0.00288	0.00267	0.00248	0.00213
20	0.00172	0.00155	0.00140	0.00113
25	0.00109	0.00096	0.00083	0.00063
30	0.00072	0.00061	0.00052	0.00036

Step 1. How much income will you need in retirement?

		YOURSELF	YOUR SPOUSE	COMBINED
A.	Current annual income	$ ______	+ $ ______	$ ______
B.	Growth factor from Table 1 (assume 3% a year)			x ______
C.	Projected annual income at retirement			= $ ______
D.	Percentage of income you want to replace (suggestion: 80%)			x ______ %
E.	Target annual retirement income, in future dollars			= $ ______

Step 2. How much will you get from Social Security and pensions?

		YOURSELF	YOUR SPOUSE	COMBINED
F.	Projected annual Social Security benefit, in today's dollars (multiply monthly Social Security benefit by 12)	$ ______	$ ______	
G.	Growth factor from Table 1 (assume 3% a year)	x ______	x ______	
H.	Future value of Social Security benefits	= $ ______	$ ______	
I.	Projected annual defined-benefit pension payout	+ $ ______	$ ______	
J.	Adjusted benefits	= $ ______	+ $ ______	= $ ______

Step 3. How big a nest egg do you need?

K.	Target annual retirement income, in future dollars (line E)	$ ______
L.	Combined Social Security and pension benefits, in future dollars (line J)	– $ ______
M.	Annual income needed from nest egg, in future dollars	= $ ______
N.	Nest-egg factor from Table 2	x ______
O.	Nest-egg goal	= $ ______

Step 4. How much have you already accumulated?

P.	Current value of 401(k)s, IRAs and other retirement savings	$ ______
Q.	Growth factor from Table 1 (assume 6% to 10%)	x ______
R.	Projected future value of current savings	= $ ______

Step 5. How much will you draw from home equity?

S.	Current home value	$ ______
T.	Growth factor from Table 1 (assume 3%)	x ______
U.	Estimated home value at retirement	=$ ______
V.	Mortgage remaining at retirement + cash for a new home	– $ ______
W.	Home's contribution to nest egg	= $ ______

Step 6. How much more do you need to save?

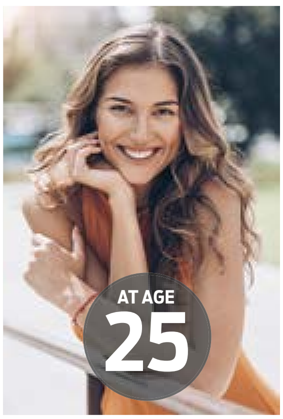
X.	Nest-egg goal (line O)	$ ______
Y.	Future value of current savings (line R) + home's contribution to nest egg (W) + any other assets	– $ ______
Z.	Nest-egg shortfall	= $ ______
AA.	Savings-target factor from Table 3	x ______
BB.	How much you need to save per month (including your current contributions)	= $ ______

SOURCE: Adapted from *Getting Started in a Financially Secure Retirement*, by Henry Hebeler (Wiley & Sons).

ROAD TO RETIREMENT

You *Can* Retire a Millionaire

If you want to save $1 million by the time you retire, time is on your side. Thanks to compounding, modest monthly contributions can grow into a seven-figure nest egg by the time you turn 65. Even late bloomers can still reach the magic number. We're assuming an all-stock portfolio with a 7% annual return—less than the stock market's historical average.



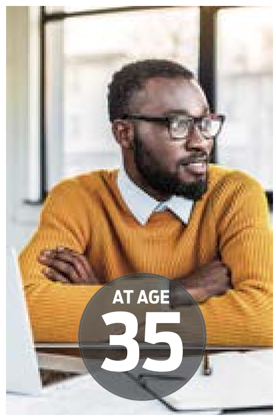
YOU'VE SAVED
$0

WHAT YOU NEED TO SAVE PER MONTH
$405

YOU'VE SAVED
$18,000*

WHAT YOU NEED TO SAVE PER MONTH
$300

TIP: You may qualify for a tax credit of 10% to 50% of the amount you contribute to an IRA, 401(k) or other retirement account. Your income must be $32,000 or less in 2019 if you're single or $64,000 or less if you're married and file jointly. The credit can reduce your tax bill by up to $2,000.



YOU'VE SAVED
$50,000*

WHAT YOU NEED TO SAVE PER MONTH
$530

YOU'VE SAVED
$65,000

WHAT YOU NEED TO SAVE PER MONTH
$435

TIP: Despite demands on your paycheck such as a mortgage, college savings and car loans, resolve to contribute enough to your 401(k) to capture your employer's matching contribution. Try to save 15% of your gross income for retirement, including the employer match.

YOU'VE SAVED
$75,000*

WHAT YOU NEED TO SAVE PER MONTH
$1,400

YOU'VE SAVED
$100,000

WHAT YOU NEED TO SAVE PER MONTH
$1,210

TIP: Supercharge your savings. You can contribute up to $19,000 to your 401(k) or similar employer-sponsored plan, plus an additional $6,000 if you're 50 or older. You can also contribute up to $6,000 to a traditional or Roth IRA, plus an additional $1,000 if you're 50 or older.

YOU'VE SAVED
$135,000*

WHAT YOU NEED TO SAVE PER MONTH
$4,300

YOU'VE SAVED
$250,000

WHAT YOU NEED TO SAVE PER MONTH
$2,975

TIP: Planning to work a few years longer can boost your savings. And because you won't be taking withdrawals, your money will have more time to compound and grow. Making catch-up contributions (see the tip at left) will also boost your bottom line.

*TYPICAL AMOUNT SAVED FOR THE AGE GROUP.

ISTOCKPHOTO.COM (4)

AMERICA'S RETIREMENT EXPERTS

The most critical stretch of your investment lifetime is retirement

You can't save and invest for your non-working years the same way you did when you were 25. That's why, when you want to begin planning for this phase of your life, you turn to the experts.

America's Retirement Experts provide the skills and experience to design the correct strategies for you to get the most from your later years.

Meet America's Retirement Experts

KARLAN TUCKER*, COLORADO

It has been Karlan Tucker's privilege to serve more than 5,000 retirees over the past 31 years. Many were not financially positioned for a retirement of 30-plus years, but he helped them design plans that secured their income. Karlan is co-author with Brian Tracy of Tracy's new book, "Success in the New Economy." He is the Founder and CEO of five firms in the Tucker Financial Group with more than $3 billion in assets under advisement.

JOHN O'CONNOR, ILLINOIS

John O'Connor has been assisting seniors, business professionals and self-employed people for over 25 years to protect their assets and invest wisely. John has also trained numerous colleagues on insurance products and retirement investing throughout Illinois.

FIND AN EXPERT NEAR YOU AT

www.AmericasRetirementExperts.com

**Investment advisory services provided through Tucker Asset Management, LLC, a registered investment advisor.*

DARREN PETTY*, RICP©, COLORADO

Darren's mission is helping clients retire happy and do the things they enjoy as soon as possible. He specializes in orchestrating retirement plans that give clients sustainable income, steady growth and smart tax planning, so that they worry less about money. Darren has earned the designation of Retirement Income Certified Professional (RICP ®) and is an Investment Advisor Representative with Tucker Asset Management.

TOM SAVINO*, CALIFORNIA

Thomas W. Savino, MBA, is an Investment Advisor Representative and President of a full-service wealth management firm. Thomas looks at each client's total financial picture, evaluates current risk and proposes a roadmap to direct them throughout their retirement years, while managing risks and providing income for their later years.

LARRY GOLDSTEIN, FLORIDA

Larry Goldstein has been privileged to work with over 1,000 individuals and families throughout South Florida over the past 10-plus years. Many were close to retirement age but their portfolios were not ready for a retirement that could last 25 to 30 years. He has worked diligently to protect their assets. Larry's focus is on Social Security maximization and retirement income planning.

Investment advisory services provided through Fidelity Investments Inc., a registered investment advisor.

ANDREW ELISON*, IDAHO

Andrew Elison was born and raised in eastern Idaho, just outside of the Blackfoot area. He has been married for 35 years, has six children and, at this time, eight grandchildren. For the past 28 years, he has been helping people reach their financial dreams and desires. Andrew believes there are great tools and opportunities out there to help people to still reach their dreams.

PAUL IVANOFF, CALIFORNIA

"I've been privileged to visit with more than 5,000 families in over 37 years," said Paul Ivanoff. "Many were ready for retirement, but their portfolios were not ready to provide income for a retirement that could last up to 30 years. I worked to help them bridge this gap. I find gratification in having helped protect over 2,000 clients from the nursing home, government taxation, market volatility and low bank yields."

TRAVIS IVANOFF*, CALIFORNIA

Travis grew up in the retirement planning business, following Paul Ivanoff's footsteps and studying his father's best practices. He holds a Series 65 license and has been in the insurance industry for 12 years. He has helped hundreds of clients reach a secure retirement, as well as provide a legacy for future generations. Travis obtained his Bachelor's from the University of Cal State Fullerton in 2012.

DEIRDRE HAFEN*, WASHINGTON

For over 20 years, Dee Dee Hafen has leveraged her considerable experience in personal retirement and wealth asset planning to guide thousands of clients through changing markets and economic challenges. She holds securities, life insurance and long term health care insurance licenses. Married with four children, Dee Dee is active in her church and the Walla Walla community.

DAVE LOSKILL, ARIZONA

Dave Loskill has owned and operated several successful businesses and, with help from his wife GayLynn, has built his practice into what is now a nationally ranked advisory firm. He is recognized as a subject-matter expert on Social Security benefits planning, and has assisted hundreds of families with their retirement income planning goals. He also assists other advisors around the country in improving their practices.

ANTHONY GARRY, MASSACHUSETTS

Anthony Garry has been helping families retire in Greater Boston for over 17 years. His firm is a boutique, family-run business that offers individual attention to clients. "I really try to get to know each individual and family so that I fully grasp their circumstances before I customize a plan for them," says Anthony. "I love what I do because I love working with people."

ANTOINE DUCROS, COLORADO

Antoine G. DuCros is a Certified Financial Fiduciary and has been working in the financial services industry since 1978. With 40 years of experience in the industry, Antoine specializes in guiding seniors and others on the financial tools available to them and how to prepare for their retirement.

JEFF LEONARD*, NEVADA

A Fiduciary who has been serving clients for over 16 years, Jeff provides independent, fee-based asset management and insurance concepts. His access to a universe of investment options puts him at the forefront of the retirement planning space. Jeff is a qualified Lifetime Member of the prestigious Million Dollar Round Table, recognized as the standard of excellence in the financial services industry.

JIM ELLISON, MISSOURI

Jim Ellison works with retirees from corporate, educational and government sectors to set up income planning and minimize financial risks. His 32-year career is focused on helping retirees take the guesswork out of income and security in retirement. Jim believes those who create a formal plan can live the lifestyle they dreamed about in their pre- and post-retirement years.

KENNETH W. CHRISTIAN, PENNSYLVANIA

Kenneth W. Christian is a LaSalle University graduate and retired Philadelphia firefighter. He has worked as a retirement specialist for over 19 years, specializing in retirement planning, life insurance, long term care and wealth preservation. He is a certified National Social Security Advisor.

MARK CHIODA*, NEW JERSEY

Mark Chioda is an independent financial analyst and consultant, specializing in growth and safe accumulation of assets, as well as retirement, income and estate planning. For over 22 years, he has assisted clients in attaining and maintaining their lifelong goals and retirement objectives, using proven asset allocation and income strategies.

VIVIEN ADAO, CALIFORNIA

As a financial professional since 2002, Vivien has extensive knowledge of the products available, as well as the expertise on how to use them to provide maximum benefit and protection to the clients she serves. She is an Infinite Banking Concept Authorized Practitioner and a Retirement Income Planning Specialist.

VERN HARGRAVE*, TEXAS

"My expertise," Vernon says, "is helping clients answer two important retirement questions. First, what do you NEED your money to do? Second, what do you WANT your money to do? We then design a pathway to achieve the results you desire for a secure financial future." Vernon's deep knowledge of financial issues comes from his 36 years of guiding people through the ups and downs of the economy toward the retirement they envision.

PEGGY FISHER, NEW JERSEY

With more than 29 years of experience, Peggy A. Fisher has worked with numerous industry corporations, focusing on risk management. She is an entrepreneur, a financial author, a co-host of a financial podcast and a graduate of Rutgers University. Peggy's income plans focus on minimizing risk and tax efficiency.

BILLIE MILES, CALIFORNIA

Billie Miles is a Partner and Co-Founder of an asset and retirement protection company. For over 20 years, Billie has been a leader in the financial industry as a producer, mentor and trainer. Billie also hosts a financial show every Saturday at 11 a.m. on a Southern California radio station. He specializes in analyzing market risk, strategic planning and custom-designed income solutions.

MICHAEL KELLY, WASHINGTON

Michael P. Kelly is a financial services consultant. For over 25 years, he has served clients who need safe wealth management, asset preservation, lifetime income and estate preservation. Michael holds CLU–Emeritus and ChFC–Emeritus designations from The American College. He has earned numerous awards for protecting clients from financial loss and is a frequent guest speaker at national seminars.

ANDREW PERRI, MICHIGAN

Andrew Perri is a trusted advisor to a select group of retirees, executives and business owners across the nation. He specializes in Holistic Wealth Planning, and his passion is assisting people toward a comfortable retirement, growing their assets, reducing taxes and creating legacies for the future. He teaches a class called "Retirement Planning Today" at Michigan universities.

Investment advisory services provided through Pinnacle Wealth Management Partners Inc. Pinnacle Wealth Management Partners Inc. is a State of Michigan registered investment advisor.

Super Early Retirement

THE FINANCIAL INDEPENDENCE, RETIRE EARLY (FIRE) MOVEMENT IS CATCHING ON WITH A NEW GENERATION THAT IS REDEFINING WHAT IT MEANS TO BE RETIRED.

BY EILEEN AMBROSE

Shortly after Matt Owen finished college, he met with his parents' financial planner, who told him he'd be lucky to retire at age 50. Matt, now 29, and his wife, Alli, 28, had other plans.

More than four years ago, the Owens started slashing their living expenses. They cut back on dining out and expensive trips. They rented out the spare rooms in their Bakersfield, Calif., home, generating enough income to cover their housing expenses. Each year, they increased their savings rate until they were salting away as much as 70% of their $250,000 annual income. In April 2018, the Owens quit their engineering jobs, hit the road for about six months in a 2006 Dodge Sprinter with 395,000 miles on it and blogged—at www.owenyourfuture.com—about their experiment to live on $40,000 a year.

A HOT MOVEMENT

The Owens are on FIRE. That is, they are part of the Financial Independence, Retire Early movement that has taken off in recent years, mostly among millennials. The goal is to reach financial independence by socking away 50% or more of annual income over, say, 10 to 15 years. Some race to achieve FI much earlier. FI is usually defined as achieving savings equal to 25 times annual living expenses—which allows you to follow the 4% withdrawal rule for the duration of a decades-long retirement.

The "retire early" part of FIRE often raises eyebrows—and skepticism. Like the Owens, many "FIRE walkers" are refugees from high-paid professional or tech careers, and most have no plans to stop working completely. But FIRE acolytes say they're redefining retirement. "Retire early" for many of them means having the financial freedom to leave the "hamster wheel" for work or pursuits that give them more control over their time.

The Owens haven't completely quit working. They offer financial coaching to couples, provide courses to help people get their financial life in order and sell healthy baked goods online. "I define retirement as never planning to go back to a 9-to-5 job," Alli says. "We plan to work for another 30 years, but on our own terms."

Many FIRE practitioners have an entrepreneurial streak that makes them well suited for a life outside the traditional, corporate mold. One popular source of income is blogging about their path to financial independence. The more-successful bloggers pull in a nice paycheck and may even snag book deals. Perhaps the best-known FIRE blog—and the one that introduced thousands to the movement—is the one by Pete Adeney, also known as Mr. Money Mustache. Adeney, a former software engineer, started the blog in 2011 after he "retired" at age 30, through frugal living and smart investing, to Longmont, Colo. He and his family live on about $34,000 a year.

DIFFERENT FLAVORS

FIRE isn't one size fits all. There is "lean FIRE," which emphasizes a goal of living on less than $40,000 a year in retirement.

"Barista FIREs" are those who are nearly financially independent but still need a part-time job to make ends meet. And "fat FIRE" followers aim to accrue enough savings to generate annual retirement income of $100,000 or more.

John and Bethany Bush of Rockford, Mich., are part of the lean FIRE crowd. John, 29, is a financial adviser and Bethany, 27, worked for the state of Michigan up until recently, when she became a stay-at-home parent. Their income is $76,000, but the couple and their two children live on $3,800 a month, with a big chunk of that going toward a mortgage that will be paid off within five years. John figures they will be financially independent in seven years.

"We know every penny we spend and monitor it closely," says John, adding that he and Bethany are thrifty by nature. "Some of the clothes I wear at home are from middle school," he says. The couple buy food on sale, get hand-me-down clothes for the kids, and find free toys and other items on Craigslist and Facebook. They've started a 529 college-savings plan for each child and expect that, along with financial aid, they'll be able to cover college bills.

Unfortunately, many workers don't earn enough to save 50% or 70% of their income. The median U.S. household income is only about $60,000. And much depends on geography. FIRE is easier if you're earning, say, $100,000 a year in Kansas City or some other place with a low cost of living, says Michael Kitces, director of wealth management for Pinnacle Advisory Group in Columbia, Md.

Even if you have an above-average income, you must be very disciplined and goal-oriented, says Ashley Foster, a certified financial planner in Houston. "It really is financial dieting if you're saving 50% or more of your income," Foster says. "For a lot of people, dieting is very difficult."

The FIRE movement has also gained

The Bush family figure their thrifty lifestyle will make them financially independent in seven years.

LOGAN ZILLMER

traction during a record-long bull market. It's unclear how a bear market would affect it. Some FIRE devotees say they're prepared to cut spending further or work to bring in extra money to avoid tapping investments in a down market.

The go-to investment for many in FIRE is low-cost index funds. FIRE investors also take advantage of tax-favored accounts—401(k)s, IRAs and health savings accounts—and sometimes buy rental properties, such as a duplex, where they can live and use rental income to pay the mortgage.

Stoking the FIRE

To get on the road to Financial Independence, Retire Early, proponents recommend these nine steps:

1. Determine why you want to achieve FIRE, and envision what you will do once you get there. (This will keep you motivated.)

2. Calculate your net worth (total assets minus liabilities) to see where you stand.

3. Track every dollar spent so you know where your money goes.

4. Slash expenses. To reach a savings rate of 50% or more, you'll need to cut major expenses, including housing and transportation.

5. Pay off high-cost debt, such as credit cards.

6. Build an emergency fund so you don't resort to credit cards in a pinch.

7. Take advantage of tax-friendly accounts: 401(k)s, IRAs and a health savings account.

8. Use index funds to keep investing costs low.

9. Find a side hustle to bring in extra income and boost savings.

WHAT GOES AROUND...

A bible of the FIRE movement is the 1992 bestseller *Your Money or Your Life,* by Vicki Robin and Joe Dominguez. Robin was an advocate of a simple, sustainable lifestyle who gained financial independence in her mid twenties. Dominguez was a Wall Street stock analyst who retired at 31. For the authors, financial independence meant having enough money not to be tied to a job for its paycheck and free to pursue work or interests that reflect their values.

Perhaps no one was more surprised by the popularity of her book than Robin herself, now 73 and living in Whidbey Island, Wash. In early 2017, Robin started to work on an update of her classic to reach a new generation—only to find that an online community on Reddit was discussing the book and that it was a top seller on Amazon. "I felt like I was sort of stumbling out of the jungle and being discovered by another generation," she says. (Robin's new edition was published in 2018 with a foreword by Mr. Money Mustache.)

This time around, too, there is social media to help spread the word. That means those living the FIRE life can now reach thousands of others in the movement who will share advice and offer support. For instance, the r/financial independence online community on Reddit now has 543,000 subscribers and is growing.

Why have millennials flocked to the movement? Robin says millennials with steep student loan debt and uncertain job prospects have concluded that they need to take control of their own future. And the internet—along with a laptop—gives workers today more employment opportunities that don't involve a 9-to-5 job, she says.

TRADE-OFFS AND CHALLENGES

One of the big trade-offs of workers abandoning careers early is that they will miss out on some of their peak earning years—which will also lead to a lower Social Security benefit later, says Roger Ma, a CFP in New York City.

And health care is a major challenge. Most workers get health insurance through an employer that typically picks up 70% of the cost. If workers leave an employer, they need to find coverage until they are eligible for Medicare at age 65. "In the mind of early retirees, that is probably the biggest issue," says Jonathan Mendonsa, cofounder of ChooseFI.

Another major challenge for those who achieve FIRE: what to do for the rest of their lives. Robin says she worries that some people in the FIRE movement are too focused on the number crunching. "They are so focused on the mechanics," she says. "They will wake up and realize there is something more to life."

Budget for *State Taxes*

Retirees relocate for lots of different reasons, from the weather to proximity to grandchildren. Moving from a pricey part of the country to one with low housing prices could also lower your expenses and make your retirement savings last longer. But as you consider the cost of living in potential retirement destinations, don't overlook the impact of state taxes on your bottom line. The map on the following pages includes details on the most and least tax-friendly states.

Scoping out state taxes is particularly important now because although the new tax law reduces federal income taxes for millions of people, taxes in some states could go up. Most states use federal definitions of income—either taxable income or adjusted gross income—as the starting point for determining how to tax their residents. And even though the federal tax overhaul lowered tax rates, increased the child tax credit and doubled the standard deduction, it also expanded the amount of income that's taxable by the feds, mainly by eliminating personal exemptions. At the state level, that could trigger taxes on a larger percentage of residents' income.

Several states, including Georgia, Iowa and Missouri, enacted laws during the 2018 legislative session that lowered tax rates and implemented other measures to prevent state taxes from rising. But lawmakers in several other states are still debating how to adjust their tax codes.

One way to avoid this problem is to move to a state that excludes all or a significant portion of your retirement income from state taxes. Six of our 10 most tax-friendly states for retirees have no income tax at all. The remaining four exclude from state taxes all or most of residents' income from retirement plan withdrawals, pensions and annuities.

At the other end of the ledger is Minnesota, which tops our list of least tax-friendly states for retirees. Minnesota is one of a handful of states that taxes a portion of Social Security benefits. The North Star State, which has a top tax rate of 9.85%, also taxes distributions from IRAs, 401(k)s and non-military pensions. Other factors to consider:

Property taxes. Several of the states on our least-tax-friendly list have above-average property taxes. In the past, residents could deduct those taxes from their federal tax bill. But the federal tax deduction for state and local taxes is now capped at $10,000.

Estate taxes. The federal tax overhaul increased the amount of assets exempt from the federal estate tax to $11.4 million ($22.8 million for a married couple). So the vast majority of people don't have to worry about that tax. But 12 states and the District of Columbia impose their own estate taxes, and some have much lower thresholds than the federal government. Vermont, which ranks fourth on our least-tax-friendly list, taxes estates valued at $2.75 million or more.

MOST TAX-FRIENDLY

1. Alaska
2. Wyoming
3. South Dakota
4. Mississippi
5. Florida
6. Pennsylvania
7. Nevada
8. New Hampshire
9. Kentucky
10. Georgia

LEAST TAX-FRIENDLY

1. Minnesota
2. Connecticut
3. Kansas
4. Vermont
5. Nebraska
6. New Mexico
7. Utah
8. Maryland
9. Indiana
10. Wisconsin

TAX MAP KEY

MOST TAX-FRIENDLY

LEAST TAX-FRIENDLY

MEDIAN PROPERTY TAX ON THE STATE'S MEDIAN HOME VALUE

$ STATE INCOME TAX

WYOMING

MEDIAN PROPERTY TAX ON THE MEDIAN HOME VALUE OF $199,900 IS $1,223.

$ NONE

SOUTH DAKOTA

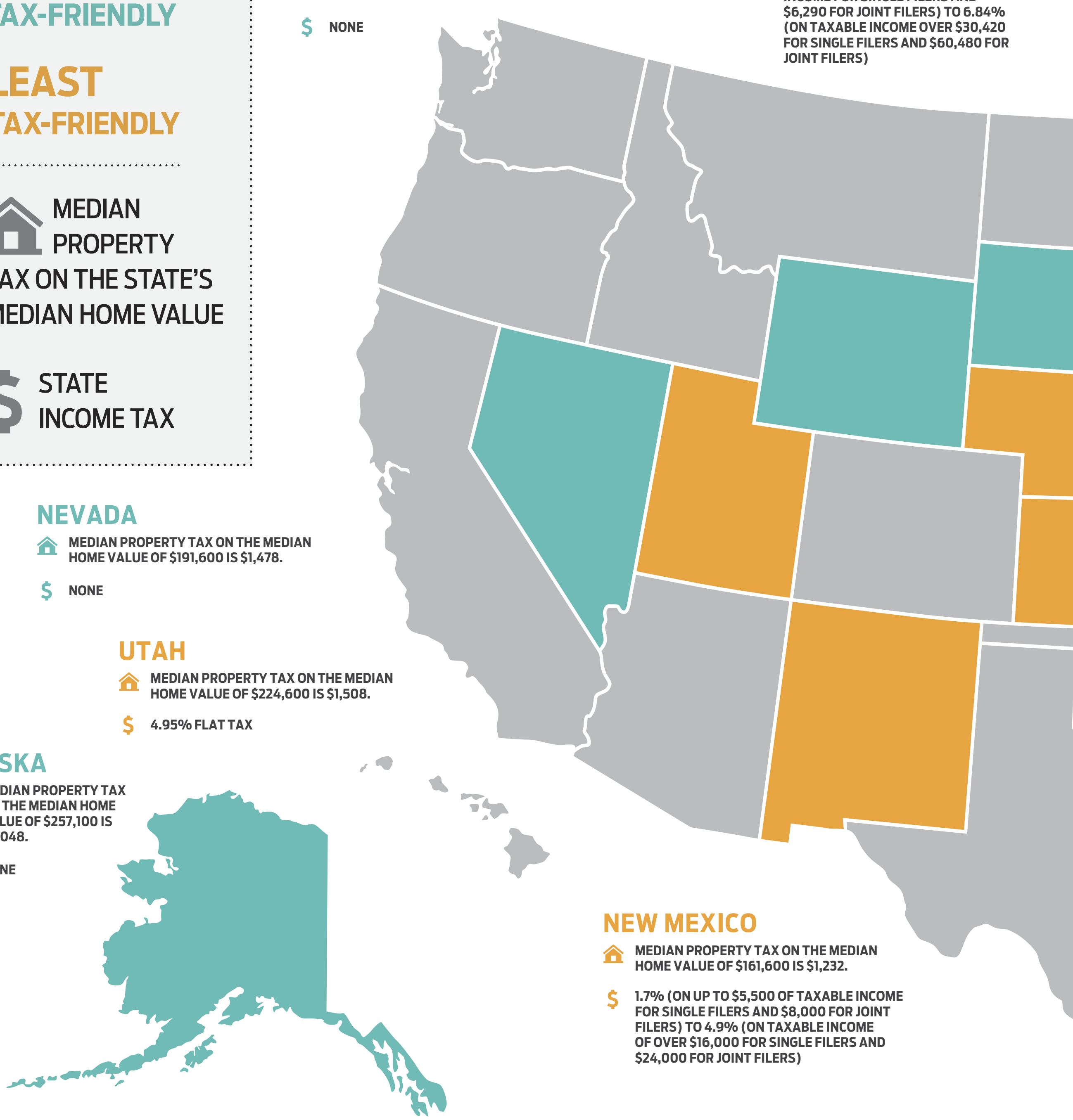
MEDIAN PROPERTY TAX ON THE MEDIAN HOME VALUE OF $146,700 IS $1,943.

$ NONE

NEBRASKA

MEDIAN PROPERTY TAX ON THE MEDIAN HOME VALUE OF $137,300 IS $2,506.

$ 2.46% (ON UP TO $3,150 OF TAXABLE INCOME FOR SINGLE FILERS AND $6,290 FOR JOINT FILERS) TO 6.84% (ON TAXABLE INCOME OVER $30,420 FOR SINGLE FILERS AND $60,480 FOR JOINT FILERS)



NEVADA

MEDIAN PROPERTY TAX ON THE MEDIAN HOME VALUE OF $191,600 IS $1,478.

$ NONE

UTAH

MEDIAN PROPERTY TAX ON THE MEDIAN HOME VALUE OF $224,600 IS $1,508.

$ 4.95% FLAT TAX

ALASKA

MEDIAN PROPERTY TAX ON THE MEDIAN HOME VALUE OF $257,100 IS $3,048.

$ NONE

NEW MEXICO

MEDIAN PROPERTY TAX ON THE MEDIAN HOME VALUE OF $161,600 IS $1,232.

$ 1.7% (ON UP TO $5,500 OF TAXABLE INCOME FOR SINGLE FILERS AND $8,000 FOR JOINT FILERS) TO 4.9% (ON TAXABLE INCOME OF OVER $16,000 FOR SINGLE FILERS AND $24,000 FOR JOINT FILERS)

METHODOLOGY: For a summary of how every state taxes income, property and purchases, plus estate taxes and special tax breaks for seniors, go to our State-by-State Guide to Taxes on Retirees at kiplinger.com/links/retireetaxmap.

MINNESOTA

MEDIAN PROPERTY TAX ON THE MEDIAN HOME VALUE OF $191,500 IS $2,234.

$ 5.35% (ON TAXABLE INCOME OF LESS THAN $25,890 FOR SINGLE FILERS AND $37,850 FOR JOINT FILERS) TO 9.85% (ON TAXABLE INCOME OF MORE THAN $160,020 FOR SINGLE FILERS AND $266,700 FOR JOINT FILERS)

WISCONSIN

MEDIAN PROPERTY TAX ON THE MEDIAN HOME VALUE OF $167,000 IS $3,257.

$ 4.0% (ON UP TO $11,450 OF TAXABLE INCOME FOR SINGLE FILERS AND UP TO $15,270 FOR JOINT FILERS) TO 7.65% (ON TAXABLE INCOME OVER $252,150 FOR SINGLE FILERS AND OVER $336,200 FOR JOINT FILERS)

VERMONT

MEDIAN PROPERTY TAX ON THE MEDIAN HOME VALUE OF $218,900 IS $3,893.

$ 3.35% (ON UP TO $38,700 OF TAXABLE INCOME FOR SINGLE FILERS AND UP TO $64,600 FOR JOINT FILERS) TO 8.75% (ON TAXABLE INCOME OVER $195,450 FOR SINGLE FILERS AND UP TO $237,950 FOR JOINT FILERS)

NEW HAMPSHIRE

MEDIAN PROPERTY TAX ON THE MEDIAN HOME VALUE OF $239,700 IS $5,241.

$ NONE

CONNECTICUT

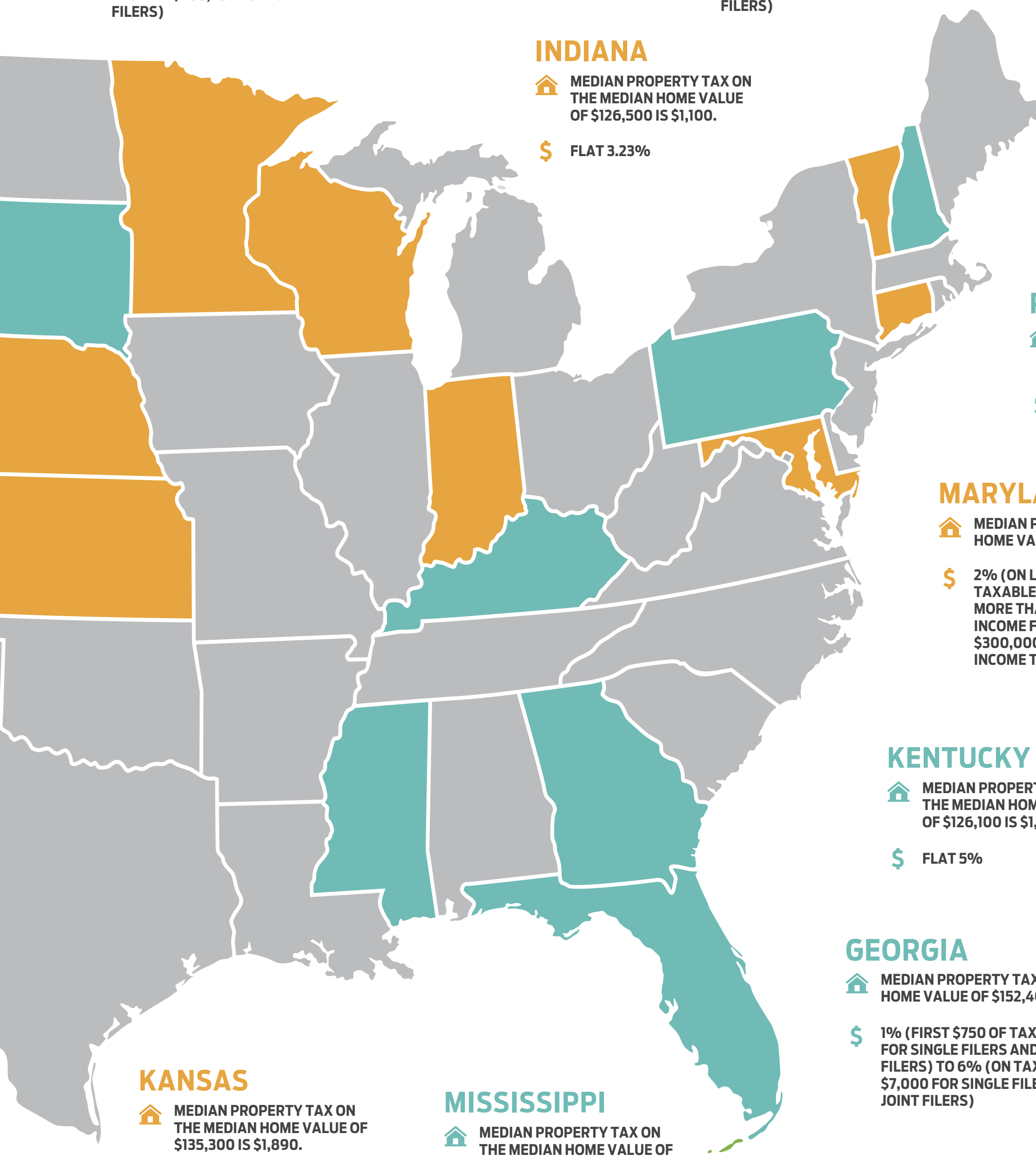
MEDIAN PROPERTY TAX ON THE MEDIAN HOME VALUE OF $269,300 IS $5,443.

$ 3% (ON INCOME OF LESS THAN $10,000 FOR SINGLE FILERS AND $20,000 FOR JOINT FILERS) TO 6.99% (ON INCOME OF MORE THAN $500,000 FOR SINGLE FILERS AND $1 MILLION FOR JOINT FILERS)

INDIANA

MEDIAN PROPERTY TAX ON THE MEDIAN HOME VALUE OF $126,500 IS $1,100.

$ FLAT 3.23%



PENNSYLVANIA

MEDIAN PROPERTY TAX ON THE MEDIAN HOME VALUE OF $167,700 IS $2,603.

$ FLAT 3.07%

MARYLAND

MEDIAN PROPERTY TAX ON THE MEDIAN HOME VALUE OF $290,400 IS $3,191.

$ 2% (ON LESS THAN $1,000 OF TAXABLE INCOME) TO 5.75% (ON MORE THAN $250,000 OF TAXABLE INCOME FOR SINGLE FILERS AND $300,000 FOR JOINT FILERS). LOCAL INCOME TAXES ARE ADDITIONAL.

KENTUCKY

MEDIAN PROPERTY TAX ON THE MEDIAN HOME VALUE OF $126,100 IS $1,078.

$ FLAT 5%

GEORGIA

MEDIAN PROPERTY TAX ON THE MEDIAN HOME VALUE OF $152,400 IS $1,413.

$ 1% (FIRST $750 OF TAXABLE INCOME FOR SINGLE FILERS AND $1,000 FOR JOINT FILERS) TO 6% (ON TAXABLE INCOME OVER $7,000 FOR SINGLE FILERS TO $10,000 FOR JOINT FILERS)

KANSAS

MEDIAN PROPERTY TAX ON THE MEDIAN HOME VALUE OF $135,300 IS $1,890.

$ 3.1% (ON LESS THAN $15,000 OF TAXABLE INCOME FOR SINGLE FILERS AND $30,000 FOR JOINT FILERS) TO 5.7% (ON MORE THAN $30,000 OF TAXABLE INCOME FOR SINGLE FILERS AND $60,000 FOR JOINT FILERS).

MISSISSIPPI

MEDIAN PROPERTY TAX ON THE MEDIAN HOME VALUE OF $105,700 IS $841.

$ 3% (ON TAXABLE INCOME OF $1,000 OR MORE) TO 5% (ON MORE THAN $10,000 OF TAXABLE INCOME)

FLORIDA

MEDIAN PROPERTY TAX ON THE MEDIAN HOME VALUE OF $166,800 IS $1,702.

$ NONE

Strategies for **Singles**

IF YOU'RE UNMARRIED AND DON'T HAVE CHILDREN, USE OUR GUIDE TO RETIREMENT SAVING, HEALTH CARE AND ESTATE PLANNING.

KAITLIN PITSKER

Robin Zenger has saved diligently and lived within her means for her entire life. When she was in her forties, she began taking a serious look at her finances to set herself up for a secure retirement. That's a smart strategy for anyone, but it's particularly important for people like Zenger, who is single and has no children.

Aging presents uncertainties for everyone, but single, childless seniors are missing the backup that many people take for granted: a spouse or adult children who can step in when needed. Many of the usual basics of saving, investing and financial planning apply to those aging without a life partner or adult children, but they also need special strategies for retirement saving, health care and estate planning.

Because of declining birth and marriage rates, caregiving family members will likely be in shorter supply for baby boomers and the generations that follow than in the past. Today, about half of American adults are married, a dramatic decrease from the 72% of adults who were married in 1960. In 2016, roughly 9% of those who were 50 or older had never married, according to the U.S. Census. And about one-third of baby boomers don't have children. Others will age alone for other reasons, such as the death of a spouse, divorce, or children who are unable to help.

"Coming of age in the '70s, I saw a lot of independent women and was keenly aware that I needed to be able to provide for myself," says Zenger, 68, who is an adjunct history professor at the University of Arizona. Although she's mostly optimistic about the years ahead, Zenger is still figuring out how she'll navigate them without a built-in support system. Her strategy for this mammoth task? Live modestly, continue to work, invest, take good care of her health—and check in periodically with a financial adviser to make sure she's still on track.

BUILD A TEAM

Growing older without a significant other or adult kids means you'll need to build a cast of supporting characters—including extended family, trusted friends and paid professionals—who can help with your finances, make medical decisions if you're incapacitated and prevent you from becoming isolated as you age.

Take the time to have a frank conversation with each of the people on your list, says Michael Branham, a certified financial planner at The Planning Center, in Moline, Ill. Find out what they're willing to do, and outline your plans or wishes. Revisit these plans often—particularly if you're relying on siblings or friends who have their own health issues, or on younger family members who may move out of the area.

You'll also need some professionals in your corner, particularly as you grow older. Start by finding a financial planner (see "Find Great Advice at the Right Price," on page 37). To fill out your team, enlist the help of an estate-planning or elder-law attorney and perhaps a certified public accountant or enrolled agent to help with tax planning. A geriatric care manager can help with Medicare paperwork, monitor your medications and help you find a home health care aide. If you don't have a friend or family member in place to carry out your wishes and make legal, financial and health care decisions for you, consider working with a professional fiduciary, such as an accountant, lawyer or trust company officer.

PAYING FOR RETIREMENT

Saving enough for retirement is a tall order for anyone, but singles often find it particularly difficult. Some 38% of singles report feeling "not at all financially secure," compared with 23% of married men and women, according to a survey by Northwestern Mutual.

In 2019, workers can contribute up to $19,000 a year to a 401(k). And workers age 50 and older can save an extra $6,000 per year in catch-up contributions. If you're able to stash more cash away, open a Roth IRA. You can contribute $6,000 a year, plus $1,000 if you're 50 or older. (For singles, your ability to contribute to a Roth begins to phase out if you make more than $120,000.) You'll pay taxes on

Robin Zenger wants to remain in her home in Tucson as long as possible, but she is also considering sharing a home with friends.

ISTVÁN VIZNER

KIP TIP

For singles who are working, disability insurance is more important than it is for those who are part of a couple. Check to see what your employer offers, and aim to bring the total coverage up to 80% to 90% of your take-home pay. Premiums are based on your job; the policy's definition of disability; your health, gender and age; the benefit amount; and other coverage details.

your contributions now, but your earnings will accumulate tax-free, and you won't owe taxes when you withdraw the money in retirement.

Social Security. Figuring out when to apply for Social Security is complicated. But singles have fewer options than their married friends, which makes the math a bit easier. If you were married for a decade or more and then divorced, or your spouse died, you may qualify for Social Security benefits based on his or her work history. If you've always been single, your check will be based on your earnings record only.

Full retirement age is 66 for people born between 1943 and 1954, and it gradually rises to age 67 for people born later. If you're in good health and have a family history of longevity, postponing benefits may be worth it. For each year you wait past full retirement age (up to age 70) you get a bump of 8% in your benefit.

Health care. Long-term-care insurance policies—which cover expenses that aren't typically covered by Medicare, such as home health care, adult day care and nursing home care—don't come cheap. Premiums will increase as you age and can rise sharply. And because women typically live longer than men, single women often pay about 50% more in premiums than single men. In recent years, premiums for long-term-care policies have spiked. But buying early—generally when you're in your late fifties or early sixties and still healthy—and making a few tweaks to the coverage can help keep the policies affordable (see "Paying for Long-Term Care," on page 74).

ESTATE PLANNING

Getting the right documents in place will make things easier if age or illness leaves you unable to manage your own affairs or make medical decisions. Most childless singles find friends and family to carry out their wishes. Consider naming a backup (called a successor) in case the first person you've chosen isn't available. Do-it-yourselfers can use a website such as LegalZoom.com to complete the forms, but you may want to hire an estate-planning attorney to make sure the forms adhere to state laws and will be properly executed. Lawyers may charge a flat fee or by the hour, but you'll typically pay $1,500 to $2,500 for all of the following documents.

Durable power of attorney. This gives someone you select the authority to manage your finances if you're unable to do so. A springing power of attorney doesn't take effect unless you're declared incompetent, while a limited power of attorney gives the person you select the power to make only certain decisions on your behalf, such as paying monthly bills from your checking account. Some banks and brokerage firms have their own forms or won't honor a power of attorney unless certain conditions are met.

Living will and health care proxy. To spell out your wishes for how you want to be treated in certain medical situations and make sure someone you know and trust can make other medical decisions for you, you'll need both a living will and a health care proxy. You can find a form for a state-specific living will at www.caringinfo.org. A health care proxy, sometimes referred to as a power of attorney for health care or an advance directive, gives the person you designate the right to make medical decisions on your behalf if you cannot. Share them with your health care providers in advance.

Information release. A medical information release gives doctors permission to share information with the people you've selected. Doctors and hospitals may have their own forms. Financial advisers and other financial professionals often have similar forms, sometimes called a letter of diminishing capacity, that will allow them to contact your doctor or a trusted friend if they're concerned about your competency.

Will. If you die without a will, the laws of the state will prevail, which means relatives you barely knew (or didn't get along with) could inherit your assets. You'll also need to choose an executor. You can hire a professional executor to oversee probate and prepare your final tax return, generally for a cut of up to 5% of your estate. K

Find Great Advice *at the Right Price*

Thanks to technology and regulatory reforms, the financial advice industry is undergoing a tectonic shift. You now have more options if you're seeking advice from a planner who is committed to looking out for your best interests. And if you shop hard enough, you can find that advice at a lower cost.

Finding the right fit. Just looking for a checkup to make sure you're on the right track? You may be able to get a free consultation from your financial services provider. Schwab, for example, offers clients one-time planning consultations on a range of topics, including overall financial planning, retirement planning, college savings and debt analysis. There is no minimum investment required for this service.

Financial services firms have also introduced a host of offerings that combine portfolios with in-house advisers. For

GIOVANNI DA RE

WE SCOURED THE FINANCIAL ADVICE MARKETPLACE TO FIND THE BEST ADVISER FOR YOU.

BY SANDRA BLOCK & LISA GERSTNER

example, for an annual fee of 0.30% of assets, Vanguard's Personal Advisor Services offers unlimited help, via phone, video or e-mail, from its stable of certified financial planners (or advisers working toward their CFP). The minimum investment is $50,000. When developing a customized portfolio, the advisers will include non-Vanguard holdings, and they will provide advice on all aspects of your financial life.

If you're digitally savvy and primarily want help with investments, robo advisers such as Betterment and Wealthfront will suggest a portfolio of low-cost funds, based on your time horizon and risk tolerance, for about 0.25% of the amount invested.

Suppose you want a dedicated adviser you can call when you experience a major life change. One option for people with deep pockets is a money management firm that manages your portfolio. You may need $1 million in investable assets, and you'll typically pay an annual fee of at least 1% of assets under management. A money manager often includes free financial planning.

Another option is a brokerage firm that sells products on commission. Edward Jones, with more than 16,000 advisers, charges commissions on its brokerage accounts, and many of its mutual funds carry up to a 5.75% front-end sales charge.

Conflict-free advice. You can avoid conflicts of interest by working with a certified financial planner. CFPs must put your interests first, and they may charge by the hour or base fees on a percentage of your assets. In the past, these planners were often unaffordable for people who didn't have a lot of money to invest, but that's changing. For example, advisers with the Garrett Planning Network (www.garrettplanningnetwork.com) typically charge from $180 to $300 an hour. Some regions of the country have no Garrett planners, but interest among advisers is growing.

Similarly, XY Planning Network (www.xyplanningnetwork.com), founded by CFPs Michael Kitces and Alan Moore, focuses on providing fee-only advice to Generation X and Y clients. There are no minimums; clients have the option of paying a monthly fee, ranging from about $75 to $250. Other fee-only advisers base their fees on clients' net worth rather than the amount of money they have invested. (Look for a fee-only planner at the website of the National Association of Personal Financial Advisors, www.napfa.org.)

As financial services proliferate, advisers who fail to offer comprehensive financial advice at a competitive price risk losing business. After working with a traditional adviser for more than a decade, Ken Chin-Purcell, 57, decided to move his money to Personal Capital, a hybrid service that combines digital financial tools with human advisers. Personal Capital matches investors with one of about a dozen portfolio strategies, which may include a mix of individual U.S. stocks plus exchange-traded funds for fixed-income and alternative investments. Chin-Purcell pays Personal Capital less than 1% of assets managed, compared with 1.3% for his previous adviser, and he has access to a dedicated CFP. They talk on the phone every two weeks or so.

How to Vet an Adviser

Interview a few advisers before you settle on one. Having conversations with the advisers will also give you a feel for how your personalities mesh. Ask questions, and check out their credentials and disciplinary history, too.

At www.letsmakeaplan.org, you can verify a planner's certification as a CFP (click on "Verify Your Advisor's Status"). You'll also see any information on the planner's disciplinary history with the CFP Board and on bankruptcy filings in the past 10 years.

To vet a registered investment adviser, visit the database at www.investor.gov. Search an individual's name, click on "Get Full Report" and then "Detailed Report" to see information on qualifications, employment history, disciplinary actions, criminal convictions and other details. You can also search a firm's name to view its Form ADV and Part 2 brochures, which have information on the types of business the firm conducts, its clientele, disciplinary actions, fee schedules, conflicts of interest and other items.

The Investor.gov database also lists whether an adviser or firm is registered as a broker. For more on a broker, visit https://brokercheck.finra.org, where you can search an individual's or firm's name to get such details as years of experience, licensing, exams passed and regulatory actions.

Safeguard Your **Portfolio**

USE THESE MOVES TO DIAL BACK RISK AND PROTECT YOUR BULL MARKET GAINS.

BY TOM PETRUNO

"Set it and forget it" has been an elegantly simple—and lucrative—investment plan for the past ten years. The U.S. economy has rolled along and the stock market has soared, with a few corrections (including one in 2018) along the way. Interest rates remain low. Just sitting still with a diversified portfolio has worked very well for many retirement savers.

But nothing lasts forever, least of all economic and market trends. We'd never recommend timing the markets with all-or-nothing bets. But the logical strategy now is to fine-tune your portfolio: Make sure your investment mix matches your tolerance for risk and that it will meet your objectives over the next few years, such as providing income if you're retired. If your portfolio has been on autopilot for the past decade, it may be out of whack with your needs—especially if they've changed. Imagine if all of your clothing were a decade old. How much would still fit you? Here's what to think about now.

YOUR TIME HORIZON

Investors in their twenties, thirties and even forties have time on their side. If you're fairly certain you won't need to tap your investments for income for 30 or 40 years, you can afford to ride out whatever rough periods inevitably lie ahead for stocks. "For people in their prime earning years, the day-to-day in markets doesn't matter," says certified financial planner Robert Wander, of Wander Financial Services. "We tell clients the only thing that matters is saving as much as you can."

It's a different story for people in their fifties and older. The day when you'll need to draw down your nest egg to live on is coming into focus, though it may still be years away. You may not be able to risk a substantial drop in your portfolio's value because you have less time to wait for it to recover, compared with younger investors. Say you'd bought the S&P 500 at its peak in 2007. You would have been in the hole for more than five years. (To see how to cut your risk at every age, turn to the box on page 43.)

From 1929 through 2009, the S&P 500 experienced 13 bear markets, defined as declines of 20% or more. The average loss was just a tick less than 40%—but the drops ranged from 20% to 86%. "You need to ask, *What would a big market decline do to me?*" says Christine Benz, personal finance director at investment research giant Morningstar. There are two aspects to that

NIGEL BUCHANAN

question. The first is how a plunge in your portfolio's value would affect your finances. The other is how it would affect you psychologically. Your risk *capacity*—the ability to absorb losses without significant harm to your lifestyle—could be high, depending on your age and the size of your nest egg. But if your risk *tolerance* is low, even modest market downturns could cause you to panic and make disastrous moves, such as selling everything.

RETUNE YOUR PORTFOLIO

Reconciling risk capacity and risk tolerance is how you get to the most important investing decision: your asset allocation, or how you divide your portfolio among stocks, bonds, cash savings and other investments. Stocks, of course, are among the riskiest and most volatile financial assets. But that also means they often offer the greatest potential returns in the long run. Interest-paying, high-quality bonds have much less risk of drastic short-term losses than stocks; the trade-off is that they offer much lower potential returns. Cash savings, such as bank accounts, have little or no risk, but they offer even lower returns.

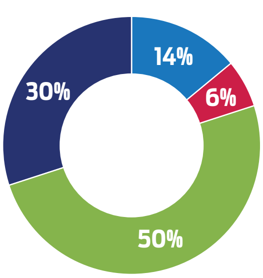
Classic asset allocation rules call for young people to keep 80% to 100% of their nest egg in stocks. As you age, the percentage in stocks should decrease, and bond and cash percentages should rise. At age 60, a typical allocation might be 45% stocks, 45% bonds and 10% cash. But your individual mix should depend on your particular goals and your ability and willingness to handle risk. If you chose an asset

Match Your Investments to Your Risk Tolerance

The portfolios below show various combinations of stocks, bonds and short-term investments (such as cash) and how they've performed from 1926 through 2018. The more stocks you own relative to other assets, the more risk you take but the higher your potential for long-term gains.

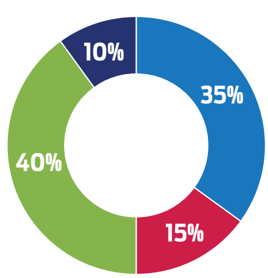
U.S. stock
Foreign stock
Bond
Short-term investments

Conservative



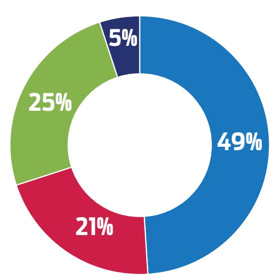
Average annual return **5.9%**
Best 12-month return **31.1%**
Worst 12-month return **−17.7%**
Best 20-year return* **11.0%**
Worst 20-year return* **2.9%**

Balanced



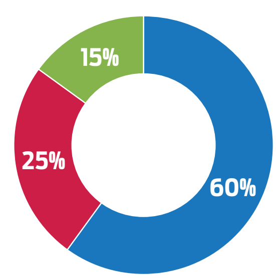
Average annual return **7.8%**
Best 12-month return **76.6%**
Worst 12-month return **−40.6%**
Best 20-year return* **13.8%**
Worst 20-year return* **3.4%**

Growth



Average annual return **8.8%**
Best 12-month return **109.6%**
Worst 12-month return **−52.9%**
Best 20-year return* **15.3%**
Worst 20-year return* **3.1%**

Aggressive Growth



Average annual return **9.5%**
Best 12-month return **136.1%**
Worst 12-month return **−60.8%**
Best 20-year return* **16.5%**
Worst 20-year return* **2.7%**

*Annualized return; includes reinvested dividends. SOURCES: Fidelity, Morningstar Inc.

mix years ago, it's important that you review your portfolio now to see whether the allocations have shifted markedly.

Fidelity Investments looked at the biggest 12-month losses suffered by different portfolio allocations from 1926 through 2018 (see the chart on page 42). The firm found that a portfolio with 85% of assets invested in U.S. and foreign stocks and 15% in bonds lost 61% in its worst 12-month period. If you change the mix to 50% stocks and 50% bonds and cash, the worst-ever loss shrank to 41%.

To keep investment allocations at desired levels, financial advisers say investors should rebalance their portfolios at set intervals, such as once a year, if assets have shifted significantly—say, 5% or more—from the desired target. Trimming assets that have appreciated and reinvesting money in assets that have lost value or risen little is a great way to meet a basic investing goal: to sell high and buy low.

THE RISK IN STOCKS

The fastest way to cut risk in a portfolio is to reduce stock holdings. The question is, which stocks to reduce? Stock market risk isn't evenly distributed; some shares are much riskier than others.

Since the market's low in 2009, the two S&P 500 stock sectors that have risen the most are consumer discretionary (firms that provide nonessential consumer goods or services), which was up 740% through March 31, and information technology, up 649%. Consumer discretionary companies benefit from strong consumer spending—think retailers, homebuilders and entertainment firms. The sector has been powered by household names such as Amazon.com (symbol AMZN) and Home Depot (HD). The tech sector has also been led by giants, including Apple (AAPL), Facebook (FB) and Netflix (NFLX), the last two now included in a new S&P sector grouping called communication services.

But the 2018 market correction showed investors just how quickly stocks that are highly valued relative to earnings and other fundamental measures can stumble. From peak to trough in 2018, for example, Apple

Cut Your Risk at Every Age

Nobody likes to pay for insurance. But we do it to protect ourselves from unforeseen disaster. Likewise, reducing risk in your portfolio after a long bull market can ensure you'll keep more of the gains you've racked up, while giving you more confidence to stay calm when the next bear market arrives. Here's how to de-risk your retirement savings at every age:

Twenties, thirties, early forties. You have little reason to cut investment risk by selling stocks. You have decades until retirement, which means decades to recover from temporary market losses. Remember that a plump retirement account depends on letting your investment returns compound over time. Young investors have better ways to cut risk than by trimming stocks. Reducing debt is one; reining in spending to boost savings is another. For forty-somethings, hiring a fee-only adviser to do a full review of your finances might be well worth the cost.

Late forties, fifties, early sixties. These should be your peak earning and investing years. But the more you accumulate, the more fearful you may become about losing a large chunk of what you've saved if markets slump. Depending on your risk tolerance, that may call for a gradual reduction of high-risk assets, such as stocks. Certified financial planner Laura Tarbox starts with more than 80% of assets in foreign and U.S. stocks for clients with aggressive-growth portfolios and takes that down to 30% of assets for those with the most conservative mix. The rest of the assets are in bonds, cash and alternative investments. For clients who want to be more defensive, "we might dial the whole portfolio down," she says.

Couples in this age group should be sure they're on the same page when it comes to risk-taking. CFP Robert Wander, of Wander Financial Services, says it's natural that "one spouse will have a different risk tolerance than the other." But both should agree on their goals and the plan to reach them.

Early sixties and older. If you are in this age group, capital preservation and income generation (from bond interest or stock dividends) become increasingly paramount because retirement is in view and you'll eventually need to make regular withdrawals of assets to pay living costs. You'll need to consider how much income you'll have from Social Security and pensions, how much you can reasonably withdraw from investments each year, and the most tax-savvy sequence of withdrawals from retirement accounts versus taxable accounts.

Given the potential to live beyond 90, you'll still need some growth stocks to provide long-term appreciation. But for retirees, it's also important to build up a year or two of living expenses in cash accounts (see "Make Your Money Last," on page 56). The idea is to avoid having to sell stocks at a low in a bear market, depleting more of your nest egg than you otherwise would and leaving less to grow over time. With the cash cushion, you can ride out a bear market until stocks begin to recover. Considering how strong the stock market has been, if you're already expecting to trim stocks to fund living expenses within the next year, consider peeling some off now. By doing so, you're rebalancing to a better comfort level.

plunged 38% and Netflix, 44%—far more than the market overall. "It was a good reminder of what can happen" when market stars disappoint, says Wander. The average stock in the S&P 500 was recently priced at 17 times estimated 2019 earnings per share, according to calculations in March from market research firm CFRA. The estimated price-earnings ratio was 22 for consumer discretionary stocks, 18 for communication services stocks and 20 for information technology shares.

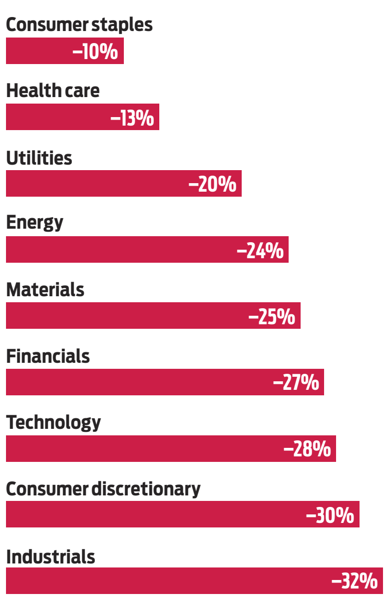
Some market veterans say it's simply prudent to take profits in the stocks that have racked up the biggest gains. "Congratulate yourself and let someone else have them," says Jim Paulsen, chief investment strategist at research firm Leuthold Group. But selling winners is one of the hardest decisions for investors, especially when a company's long-term prospects still seem bright.

Bulls say the prices of some high-flying stocks relative to earnings are justified by their long-term growth outlooks. Yet that was the same argument put forth before the 2000–02 tech-stock crash. After that collapse, Microsoft (MSFT) shares took almost 17 years to get back to their 1999 peak—even though the firm was highly profitable for the entire period. It's understandable if you can't bear to part completely with your winners. But at least consider selling a portion of the shares.

Investors whose stock holdings are entirely in exchange-traded funds or conventional mutual funds need to look at what's in those portfolios to judge how much risk they're taking and which funds may be ripe for pruning. One surprise may be just how heavily invested you are in the most popular technology shares, in both actively managed funds and passive (index) funds, says CFP Wes Shannon at SJK Financial Planning. In the S&P 500, the top four stocks by market value—Microsoft, Apple, Amazon and Alphabet—account for an outsize 14% of the entire value of the index.

NOT ALL STOCK SECTORS GET MAULED

In a bear market, nearly all stocks fall. But some hold up much better than others. Here are average bear market declines for Standard & Poor's 500-stock index industry sectors since 1946:



SOURCE: CFRA

PLAYING DEFENSE

In Wall Street lingo, *defensive* stocks are ones that are expected to hold up better than the average stock in a broad market sell-off. Those tend to be stocks in slower-growing industries—think utilities, energy firms, financials, drug makers and companies that make consumer staples, such as detergent, toothpaste and packaged foods. Many are considered value stocks because they trade for low prices relative to earnings and other fundamental business measures. Because the shares usually offer fairly modest appreciation potential, they often pay above-average dividends, which increases their appeal to investors when the market slumps.

What's key to remember, though, is that "in a bear market, there is no place to hide," says Sam Stovall, chief investment strategist at CFRA. "Defensive stocks don't go up in price in a bear market. They just lose less."

CFRA looked at stock price moves of major industry sectors in the S&P 500 during the 11 bear markets since 1946. CFRA calculated an average post–World War II bear market loss of 25%. The most defensive sector in those 11 bear periods was consumer staples, which averaged a loss of just 10%. The second-most-defensive sector was health care, with a 13% average loss. Third was utilities, down 20%. Industrial stocks were the biggest losers, down 32% on average. Next was consumer

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discretionary, down 30%. Tech was off 28%.

Betting on specific industries as a portfolio hedge is easy enough, given the proliferation of low-cost sector index funds. For example, consider **Invesco S&P 500 Equal-Weight Health Care ETF** (RYH, $197) as a way to focus on medical-related shares. The fund is included in the Kiplinger ETF 20, the list of our favorite ETFs.

Another defensive option is to add a diversified value-oriented stock fund to your asset mix. Two low-cost, actively managed value funds to consider from the Kiplinger 25, the list of our favorite no-load mutual funds, are **Dodge & Cox Stock** (DODGX) and **T. Rowe Price Value** (TRVLX). Indexing fans might look at **Vanguard Value ETF** (VTV, $108). It owns all the stocks considered value names in the S&P 500.

You might also consider a fund that invests in big-name, dividend-paying stocks. But rather than focusing on current yield, choose a fund that targets companies that raise their dividends every year. The idea is to have a rising income stream over time, even if stock appreciation slows. That could be particularly useful for retirees who will need cash to live on. **Vanguard Dividend Appreciation** (VIG, $110), a Kip ETF 20 member, targets stocks that have increased dividends every year for at least 10 years. The fund has a current yield of 2.0%. Another good choice is **ProShares S&P 500 Dividend Aristocrats** (NOBL, $68), which invests only in stocks that have raised payouts annually for a minimum of 25 consecutive years. Its current yield is 2.1%.

KIP TIP

Look for stock funds that lose less than the broad market during downswings. Over the past 10 years, for example, **Fidelity Contrafund** (FCNTX)has lost 91 cents for every $1 decline in Standard & Poor's 500-stock index.

BONDS AND CASH

For bond investors, de-risking is all about keeping an eye on credit quality and watching the Federal Reserve. The Fed backed away from rate-hiking early in 2019, but it would be a mistake not to be on guard for additional rate hikes. Rising rates drive down the principal value of older fixed-rate bonds. One defensive move is to keep most of your bond allocation in short- or intermediate-term, high-quality bonds rather than in longer-term issues. If market interest rates rise, the shorter a bond's time to maturity, the smaller the decline in principal value caused by higher rates. The tradeoff is that you'll earn a lower current yield on shorter-term bonds than on longer-term issues. Funds that focus on intermediate-term bonds, which mature in five to 10 years, are a good compromise, and among these it's hard to beat **Dodge & Cox Income** (DODIX, yield 3.0%). The actively managed fund's total return has outperformed the average intermediate-term bond fund over the past three, five, 10 and 15 years.

Another defensive move is to shift part of your bond allocation to cash accounts, such as money market mutual funds, which have very low risk of principal loss. The average money fund was recently yielding 2.1%; we like **Vanguard Prime Money Market fund** (VMMXX), yielding 2.5%.

But nervous investors should fight the urge to hunker down in too much cash. The argument for holding bonds instead of going entirely into greenbacks is twofold. First, if it's income you need, bonds provide more of it than cash accounts, with the yield on a 10-year Treasury note recently 2.4%. The second argument for holding bonds is for insurance: If some calamity were to suddenly rock the economy and the stock market, it's likely that money would pour into the relative safety of high-quality bonds, pushing prices up and yields down. In the midst of the financial crisis a decade ago, high-quality bonds bucked the downtrend. The Bloomberg Barclays U.S. Aggregate Bond index returned 5.2% in 2008, compared with a negative 37% total return for the S&P 500.

The greatest danger to bonds and stocks alike would be a sudden acceleration in inflation that would force the Fed to hike rates aggressively, says Bob Doll, chief stock strategist at Nuveen Asset Management. For years, "low inflation has been financial assets' best friend," Doll says. If markets sense that that era is over, "you'd want to own fewer bonds and stocks both."

One exception: Treasury inflation-protected securities, or TIPS. The principal value of these bonds is guaranteed to rise with inflation. TIPS are best owned in tax-deferred accounts. Buy them directly from Uncle Sam at www.treasurydirect.gov, or check out **Vanguard Inflation-Protected Securities** (VIPSX). **K**

A STRAIGHTFORWARD INCOME?
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Tax-free municipal bonds are issued by state and local governments to raise money for major infrastructure projects, such as local roads, hospitals and stadiums. Like any borrower, state and local governments pay interest to investors who hold the bonds. But, what sets them apart are two important investing benefits.

1. Potential Safety of Principal
When investing in municipal bonds, investors are paid back the full face value of their investment at maturity or earlier if called, unless the bond defaults. This is important because many investors, particularly those nearing retirement or in retirement, are concerned about protecting their principal. In June of 2017, Moody's published research that showed that rated investment grade municipal bonds had an average cumulative 10-year default rate of just 0.09% between 1970 and 2016.* That means while there is some risk of principal loss, investing in rated investment-grade municipal bonds can be an important part of your portfolio.

2. Potential Tax-Free Income
Income from municipal bonds is not subject to federal income tax and, depending on where you live, may also be exempt from state and local taxes. Tax-free income can be a big attraction for many investors.

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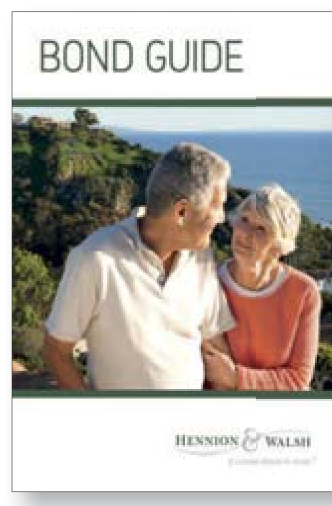

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Great Funds for Every Season

OUR FAVORITE ACTIVELY MANAGED FUNDS INCLUDE PICKS FOR ALL SEASONS.

BY NELLIE S. HUANG

A good garden will feature a mix of tall evergreens, midsize perennial flowering plants, fast-growing ground covers and maybe a showy piece such as a sculpted topiary. Some require regular tending, while others can be left alone. Some might flower in the spring; others blaze with richly hued foliage in the fall. Each plant is chosen for its individual merits, but together they form a beautiful garden.

Assembling a portfolio of mutual funds is much the same. We consider a number of variables and a mix of strategies when we select the Kiplinger 25, our favorite actively managed no-load funds. We think they're the cream of the crop, although they might not all be appropriate for your portfolio. The group is a diverse collection that ranges across large- and small-company funds, foreign and U.S. holdings, and a wide array of bonds. Just like a mix

EVERYTHING YOU NEED TO KNOW ABOUT THE KIP 25

We favor a buy-and-hold strategy for fund investing. Don't be put off by a lackluster one-year return. Focus on the long-term performance and fees. Most of the Kiplinger 25 funds have below-average expense ratios.

U.S. Stock Funds	Symbol	Annualized total return 1 year	Annualized total return 5 years	Expense ratio	Biggest holdings
D.F. Dent Midcap Growth	DFDMX	13.0%	11.5%	0.98%	Verisk Analytics, Ecolab, Tyler Technologies
Dodge & Cox Stock	DODGX	4.3	8.8	0.52	Comcast, Wells Fargo, Charter Communications
Mairs & Power Growth	MPGFX	12.8	8.8	0.64	Ecolab, U.S. Bancorp, Alphabet
Parnassus Mid Cap	PARMX	10.4	10.2	0.99	Motorola Solutions, Hologic, Teleflex
T. Rowe Price Blue Chip Growth	TRBCX	12.1	15.1	0.70	Alibaba Group, Amazon.com, Alphabet
T. Rowe Price Dividend Growth	PRDGX	12.6	11.2	0.64	Apple; Becton, Dickinson; Danaher
T. Rowe Price QM US Sm-Cp Gro	PRDSX	7.0	10.5	0.79	Bright Horizons Family Solutions, Burlington Stores, Cable One
T. Rowe Price Sm-Cap Value	PRSVX	1.4	6.9	0.91	Atrion, BankUnited, Belden
T. Rowe Price Value	TRVLX	4.0	7.9	0.80	Boeing, Cisco Systems, Merck
Primecap Odyssey Growth	POGRX	−0.6	12.6	0.65	Abiomed, United Continental, Eli Lilly
Vanguard Equity-Income	VEIPX	7.5	9.5	0.27	JPMorgan Chase, Johnson & Johnson, Verizon
Wasatch Small Cap Value	WMCVX	3.5	8.6	1.20	Euronet Worldwide, Monro, Knight-Swift Transportation

International Stock Funds	Symbol	Annualized total return 1 year	Annualized total return 5 years	Expense ratio	Biggest holdings
AMG TimesSquare Intl SmallCap	TCMPX	−16.7%	5.7%	1.24%	Topdanmark, Modern Times Group, ABC-Mart
Baron Emerging Markets	BEXFX	−9.8	3.9	1.36	Tencent, Alibaba Group, Taiwan Semiconductor
Fidelity International Growth	FIGFX	0.1	5.2	0.95	Nestlé, Roche Holdings, CSL Ltd.
Oakmark International‡	OAKIX	−14.1	1.2	0.96	BNP Paribas, Daimler, Lloyds Banking Group

Specialized/ Go-Anywhere Funds	Symbol	Annualized total return 1 year	Annualized total return 5 years	Expense ratio	Biggest holdings
Vanguard Health Care	VGHCX	8.9%	9.9%	0.38%	Bristol-Myers Squibb, UnitedHealth Group, AstraZeneca
Vanguard Wellington‡	VWELX	7.0	7.6	0.25	Microsoft, Verizon, JPMorgan Chase

Bond Funds	Symbol	Annualized total return 1 year	Annualized total return 5 years	Expense ratio	Biggest sector weighting
DoubleLine Total Return Bond	DLTNX	4.0%	3.0%	0.73%	Mortgage-backed securities (57%)
Fidelity Intermediate Municipal Income	FLTMX	4.8	2.9	0.37	Revenue bonds (56%)
Fidelity New Markets Income	FNMIX	−0.4	4.7	0.84	Foreign government bonds (67%)
Fidelity Strategic Income	FADMX	2.6	3.5	0.69	High-yield debt (42%)
Metropolitan West Total Return Bond	MWTRX	4.5	2.5	0.67	Mortgage-backed securities (40%)
Vanguard High-Yield Corporate	VWEHX	5.9	4.5	0.23	Corporate bonds (96%)
Vanguard Short-Term Investment-Grade	VFSTX	3.6	2.0	0.20	Corporate bonds (63%)

Indexes	Annualized total return 1 year	Annualized total return 5 years	Biggest holdings
S&P 500-STOCK INDEX	**9.5%**	**10.9%**	Microsoft, Apple, Amazon.com
RUSSELL 2000 INDEX*	**2.0**	**7.1**	Etsy, Trade Desk, Five Below
MSCI EAFE INDEX†	**−3.7**	**2.3**	Nestlé, Novartis, Roche Holding
MSCI EMERGING MARKETS INDEX	**−7.4**	**3.7**	Tencent Holdings, Alibaba Group, Taiwan Semiconductor
BLOOMBERG BARCLAYS U.S. AGGREGATE BOND INDEX#	**4.5**	**2.7**	U.S. Treasuries, Fannie Maes, Ginnie Maes

As of March 31. ‡New investors must purchase directly from the fund company. *Small-company U.S. stocks. †Foreign stocks. #High-grade U.S. bonds. SOURCES: FTSE Russell, fund companies, Morningstar.

CHRIS MADDEN

of plant varieties, they thrive at different times and in different conditions.

Over the past year, our U.S. funds mostly bloomed while foreign funds wilted. Despite a nasty correction in late 2018, a sharp rebound left U.S. stocks in positive territory. It was not so for foreign stocks, which took a bearish turn last fall. Overall, the Kip 25 performed as we would have expected, with a few disappointments. Many of our picks tend to hold up well in rough markets, and given economic, trade and other challenges ahead, we like how the group is positioned.

For a view of the Kip 25 at a glance, turn to the previous page. We've also created portfolios with the Kip 25 funds, suited to investors with different risk tolerances and time horizons (below). Returns are through March 31.

THE KIPLINGER 25 PORTFOLIOS

The Best Mix to Reach Your Goal

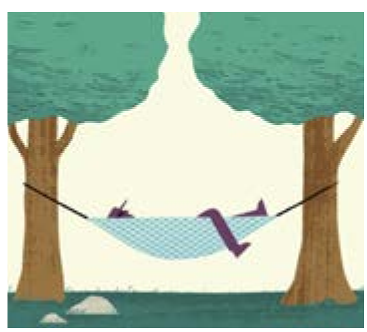
Use the three model portfolios below as a starting point to build a diversified mix of funds. If you can tolerate short-term losses, boost your stock allotment up a notch. But if you're nervous about the stock market, kick up the bond portion instead. Stocks flipped and flopped last year, and the volatility took a toll on our riskier portfolios. Our aggressive portfolio gained 1.4% over the past 12 months; the moderate mix was up 1.4%, too; and the conservative model climbed 5.4%.

Years to Go

TIME HORIZON: 11 years or more
STRATEGY: Invest 85% of assets in stocks and add a stable, core bond fund for the remaining 15%.

AGGRESSIVE PORTFOLIO

MUTUAL FUND	% of portfolio
Dodge & Cox Stock	20%
Primecap Odyssey Growth	20
DoubleLine Total Return Bond	15
Parnassus Mid Cap	15
Fidelity International Growth	10
Oakmark International	10
T. Rowe Price QM US Sm-Cap Gro Eq	10



Within View

TIME HORIZON: Six to 10 years
STRATEGY: Balance roughly 65% in stocks and 35% in bonds for a more temperate mix.

MODERATE PORTFOLIO

MUTUAL FUND	% of portfolio
Vanguard Equity-Income	20%
DoubleLine Total Return Bond	15
MetWest Total Return Bond	15
Oakmark International	15
Primecap Odyssey Growth	15
T. Rowe Price Small-Cap Value	10
Vanguard Wellington	10

Income Now

TIME HORIZON: Five years or less
STRATEGY: A steadier blend of 70% bonds and 30% stocks for a short time frame. It yields 3.3%.

CONSERVATIVE PORTFOLIO

MUTUAL FUND	% of portfolio
DoubleLine Total Return Bond	25%
Fidelity Strategic Income	20
T. Rowe Price Dividend Growth	15
Vanguard Equity-Income	15
Vanguard Sht-Tm Invest Grade	15
Fidelity New Markets Income	5
Vanguard High-Yield Corporate	5

CHRIS MADDEN (3)

Aim for the Right *Target-Date Fund*

THESE ALL-IN-ONE FUNDS TAKE VARYING ROUTES TO REACH YOUR GOAL.

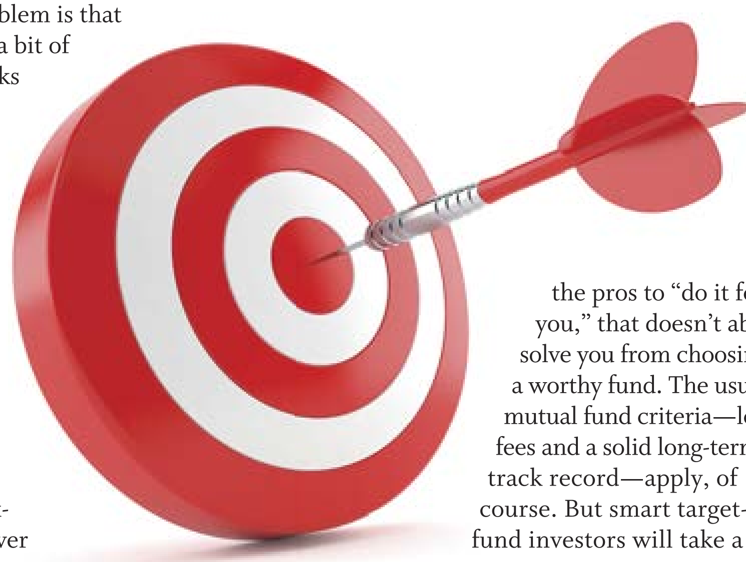
BY NELLIE S. HUANG

Target-date investors, especially those near retirement, might have been surprised by their fund's dismal performance over the past year. After all, these funds are geared for your retirement money. You choose a fund with the year in its name closest to the time you plan to retire and the fund's managers make the decisions with your time horizon in mind, constructing a more conservative portfolio as your date approaches. But over the past 12 months, Standard & Poor's 500-stock index gained 9.5%—after a nasty correction and swift recovery—while the typical 2025 target-date fund, aimed at people retiring in roughly five years, was up just 3.4%.

Part of the problem is that these funds own a bit of everything—stocks and bonds, both U.S. and foreign. And all major markets suffered some lumps for stretches over the past year. Foreign shares, measured by the MSCI All World Country Index ex-USA, lost 4.2% over the past 12 months. A recent rally saved an otherwise lackluster year for Bloomberg Barclays U.S. Aggregate Bond index, which gained 4.5% for the year. "Global diversification didn't shine over the past year," says Morningstar analyst Jeff Holt.

It is worth noting that target-date funds beat the S&P 500 during the 13-week correction (from mid September through Christmas Eve), when the index fell 19%. The most conservative funds, dated 2015 for those already retired, lost 7.5%, on average. The most aggressive funds, dated 2060, lost 16.7%.

Do your part. The past year is a good reminder that although target funds allow the pros to "do it for you," that doesn't absolve you from choosing a worthy fund. The usual mutual fund criteria—low fees and a solid long-term track record—apply, of course. But smart target-fund investors will take a



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close look at the "glide path" for their target fund series—the shift in the mix of stocks, bonds, cash and other investments over time—to ensure it aligns with their risk tolerance.

Although all target funds become more conservative the closer they get to their target year, with their managers trimming a fund's allotment to stocks and boosting the allocation to bonds and cash, each target date series takes its own path. The typical 2030 fund, for savers with 10 years to go before retirement, holds 60% of its assets in stocks. But a few have as much as 75% in stocks, and one has as little as 35%.

Some target funds continue to shift the mix for years after the target year. These "through" funds tweak the asset mix over a set number of years after you retire. Other funds have a glide path that ends once they reach the target year. These "to" funds tend to be more conservatively positioned at the target year than "through" funds.

Our favorite target-date series follow "through" glide paths, but the time lines may vary among fund families. **Fidelity Freedom** and **Vanguard Target Retirement**, for example, both hit the target year with stock allocations of just over 50%. But Fidelity's post-target-date glide path lasts up to 19 years after. At the end of its path, the Freedom funds hold 19% in stocks and 79% in bonds and cash. Vanguard's glide path continues for seven years after the target year, reaching a final mix of 30% in stocks and 70% in bonds and cash. The glide path for the **T. Rowe Price Retirement** series lasts for 30 years past the target year. At its end point, the Price series holds 20% of assets in stocks and the rest in fixed income.

What about those "to" series, with allocations that stop gliding at the target year? The shifting may cease, but the funds don't die. For instance, two years after a target fund in JPMorgan's actively managed SmartRetirement series hits its target year, the fund merges into a portfolio with roughly 30% to 35% of assets in stocks, and the rest in bonds and cash.

How Target-Date Funds Have Fared

These funds are desiged to meet your goal, not necessarily to beat benchmarks.

TARGET DATE FUND	SYMBOL	ANNUALIZED TOTAL RETURN 1-YR.	5-YRS.	10-YRS.	ALLOCATION* STOCKS	BONDS
FIDELITY						
Freedom 2025	FFTWX	2.5%	6.1%	10.5%	62%	38%
Freedom 2030	FFFEX	2.3	6.8	11.2	74	26
Freedom 2035	FFTHX	1.9	7.2	11.7	87	13
Freedom 2040	FFFFX	1.8	7.3	11.8	92	8
Freedom 2045	FFFGX	1.7	7.2	11.9	92	8
T. ROWE PRICE						
Retirement 2025	TRRHX	3.6	6.6	12.1	65	35
Retirement 2030	TRRCX	3.5	7.0	12.8	73	27
Retirement 2035	TRRJX	3.4	7.3	13.2	79	21
Retirement 2040	TRRDX	3.3	7.6	13.4	84	16
Retirement 2045	TRRKX	3.3	7.7	13.5	87	13
VANGUARD						
Target Retirement 2025	VTTVX	3.8	6.2	10.8	62	38
Target Retirement 2030	VTHRX	3.7	6.5	11.4	70	30
Target Retirement 2035	VTTHX	3.6	6.9	12.1	77	23
Target Retirement 2040	VFORX	3.4	7.1	12.3	84	16
Target Retirement 2045	VTIVX	3.3	7.2	12.4	90	10
S&P 500-STOCK INDEX		**9.5%**	**10.9%**	**15.9%**		
BLOOMBERG BARCLAYS US AGG BOND IDX		**4.5%**	**2.7%**	**3.8%**		

Fund returns as of March 31. *Bond allocations may include other assets, such as short-term debt, convertibles and cash. SOURCES: Fund companies, Morningstar Inc.

Even if your target date is near, it's important to take a long-term view when it comes to evaluating fund performance—so don't sweat the occasional dismal year. "Target date funds are long-term investments," says Jake Gilliam, a portfolio strategist for Schwab's multi-asset strategies. "They're not designed to beat the S&P 500. The objective is to offer a long-term retirement solution." K

100 Biggest Funds *in 401(k) Plans*

FOLLOW OUR THREE STEPS TO DETERMINE WHICH FUNDS IN YOUR PLAN ARE WORTH OWNING.

BY NELLIE S. HUANG

Just because a fund is popular doesn't mean it's good. Although the funds on this list are big in 401(k) plans, as reported by financial-information company BrightScope, smart investors will take some time to investigate whether they are worthy investments.

Start by identifying the best funds in your plan. Which funds have consistently beaten their benchmark? Do a comparison of a fund's year-by-year performance with that of an appropriate benchmark. The fund won't beat the index every year, but it should do so more often than not.

But make sure you choose an appropriate benchmark when comparing performance. Pit a large-company U.S. stock fund, for instance, against Standard & Poor's 500-stock index. A small-company U.S. stock fund compares best with the Russell 2000 index, which tracks shares in small firms. A foreign stock fund may be best checked against the MSCI EAFE index, which tracks foreign shares in developed countries. Match an intermediate-term bond fund with Bloomberg Barclays U.S. Aggregate Bond index, which tracks a diversified group of high-quality, medium-term IOUs. If you're confused about which benchmark to compare a fund with, your 401(k) plan typically has information, as does the fund's prospectus.

Get a read on a fund's risk, and make sure you've got the stomach for it. One easy way to figure out how risky a fund can be is to find out how it performed during a really tough period. In 2018, the stock market stumbled and the S&P 500 lost 4.4% that calendar year. Foreign stocks got pounded, too. The MSCI EAFE index lost 13.8%. Another rough patch for comparison: 2008. The S&P 500 sank 37% that year.

Finally, focus on cost. In general, don't pay more than 1% annually for an actively run diversified U.S. stock fund, or more than 0.20% for a U.S. stock index fund.

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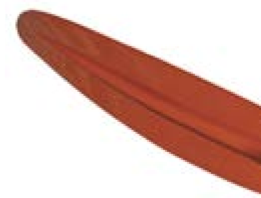
The funds on this list are the 100 biggest holders of 401(k) assets, according to BrightScope, which rates employer-sponsored retirement plans. Use the table as a starting point to evaluate the funds in your plan. Remember to balance your desire for returns with your tolerance for risk and to invest with a long-term view. You can peek in on your investments as many times as you want, but once a year, do a thorough review of your holdings and bring your overall allocation in line with your plan by rebalancing the mix.

FUND	SYMBOL	ANNUALIZED TOTAL RETURN 1-YR.	3-YR.	5-YR.	10-YR.	CATEGORY
American Beacon Lg Cap Value Inv	AAGPX	2.4%	10.8%	6.3%	13.5%	Large Co
Small Cap Value Inv	AVPAX	−3.7	8.1	5.0	14.4	SmMid Co
American Funds 2030 Trgt Dt Ret A	AAETX	4.1	9.4	6.9	12.1	Target
AMCAP A	AMCPX	7.0	13.7	10.3	15.8	Large Co
American Balanced A	ABALX	6.3	9.1	7.6	11.8	Balanced
Capital World Growth & Income A	CWGIX	0.3	10.2	6.2	11.4	Foreign
Europacific Growth A	AEPGX	−5.0	9.0	4.1	9.4	Foreign
Fundamental Investors A	ANCFX	5.1	13.1	10.4	14.7	Large Co
Growth Fund of America A	AGTHX	7.3	15.9	11.7	15.2	Large Co
New Perspective A	ANWPX	5.0	13.1	9.0	13.6	Foreign
Washington Mutual A	AWSHX	8.7	12.8	9.9	14.6	Large Co
Artisan Mid Cap Inv*	ARTMX	12.3	14.2	8.3	16.5	SmMid Co
Dodge & Cox Balanced	DODBX	4.4	10.5	7.0	12.9	Balanced
Income Fund	DODIX	4.3	3.7	3.2	5.4	Bond
International Stock*	DODFX	−8.0	8.1	1.0	10.0	Foreign
Stock Fund	DODGX	4.3	14.3	8.8	15.8	Large Co
Fidelity 500 Index	FXAIX	9.5	13.6	11.1	—	Large Co
Balanced Fund	FBALX	6.1	9.9	7.7	11.8	Balanced
Blue Chip Growth	FBGRX	14.2	19.7	14.5	18.9	Large Co
Contrafund	FCNTX	8.8	16.0	12.4	16.1	Large Co
Diversified International	FDIVX	−4.1	5.9	3.1	9.1	Foreign
Extended Market Index	FSMAX	5.0	13.5	8.2	—	SmMid Co
Freedom 2020	FFFDX	2.6	8.1	5.8	9.8	Target
Freedom 2025	FFTWX	2.5	8.6	6.1	10.5	Target
Freedom 2030	FFFEX	2.3	9.9	6.8	11.2	Target
Freedom 2035	FFTHX	1.9	10.7	7.2	11.7	Target
Freedom 2040	FFFFX	1.8	10.8	7.3	11.8	Target
Freedom 2045	FFFGX	1.7	10.7	7.2	11.9	Target
Growth Company*	FDGRX	8.5	21.0	15.0	19.1	Large Co
International Index	FSPSX	−4.0	7.5	2.6	—	Foreign
Low-Priced Stock	FLPSX	−0.4	8.7	6.5	14.7	SmMid Co
OTC Portfolio	FOCPX	10.2	21.5	15.5	20.2	Large Co
Puritan Fund	FPURX	5.3	9.8	7.8	11.8	Balanced
US Bond Index	FXNAX	4.6	2.0	2.7	—	Bond
Goldman Sachs Sm Cp Value Inv*	GSQTX	−1.4	10.4	6.4	15.1	SmMid Co
Harbor Capital Appreciation Inv	HCAIX	11.1	18.2	13.7	16.7	Large Co
International Investor	HIINX	−9.8	3.1	−0.6	8.0	Foreign
Invesco Diversified Dividend A	LCEAX	6.8	6.6	7.1	13.6	Large Co
JPMorgan Large Cap Growth A	OLGAX	13.6	19.9	14.4	17.5	Large Co
Mid Cap Value A	JAMCX	2.6	7.9	7.3	15.1	SmMid Co
SmartRetirement 2020 A	JTTAX	2.3	6.6	4.9	10.0	Target
SmartRetirement 2025 A	JNSAX	2.2	7.5	5.5	10.9	Target
SmartRetirement 2030 A	JSMAX	2.1	8.5	6.0	11.7	Target
SmartRetirement 2035 A	SRJAX	1.4	8.9	6.1	12.1	Target
SmartRetirement 2040 A	SMTAX	1.3	9.5	6.4	12.4	Target
MainStay Large Cap Growth A	MLAAX	14.6	18.6	13.3	16.2	Large Co
Met West Total Return Bond M	MWTRX	4.5	2.1	2.5	5.8	Bond
MFS Value A	MEIAX	4.6	10.0	8.1	13.3	Large Co
Neuberger Berman Genesis Inv	NBGNX	6.6	12.9	8.6	14.5	SmMid Co
Oakmark Equity & Income Inv	OAKBX	1.4	8.1	5.0	9.3	Balanced
S&P 500-Stock Index (large U.S. stocks)		**9.5%**	**13.5%**	**10.9%**	**15.9%**	
MSCI EAFE Index (foreign stocks)		**−3.7%**	**7.3%**	**2.3%**	**9.0%**	

FUND	SYMBOL	ANNUALIZED TOTAL RETURN 1-YR.	3-YR.	5-YR.	10-YR.	CATEGORY
Oppenheimer Developing Mkts A*	ODMAX	−4.1%	11.8%	3.7%	11.0%	Foreign
PGIM Total Return Bond A	PDBAX	4.2	3.6	3.5	6.3	Bond
Pimco Total Return A	PTTAX	3.5	2.5	2.5	4.5	Bond
T. Rowe Price Blue Chip Growth	TRBCX	12.1	20.1	15.1	18.8	Large Co
Equity Income	PRFDX	3.0	10.8	6.8	13.4	Large Co
Growth Stock	PRGFX	10.5	18.1	13.9	17.7	Large Co
Instl Large Cap Growth	TRLGX	14.0	21.9	15.4	19.4	Large Co
Mid-Cap Growth*	RPMGX	9.4	15.2	12.4	17.9	SmMid Co
New Horizons*	PRNHX	18.3	23.3	14.5	21.9	SmMid Co
Retirement 2015	TRRGX	3.6	7.4	5.4	10.3	Target
Retirement 2020	TRRBX	3.6	8.4	6.1	11.3	Target
Retirement 2025	TRRHX	3.6	9.2	6.6	12.1	Target
Retirement 2030	TRRCX	3.5	9.9	7.0	12.8	Target
Retirement 2035	TRRJX	3.4	10.4	7.3	13.2	Target
Retirement 2040	TRRDX	3.3	10.9	7.6	13.4	Target
Retirement 2045	TRRKX	3.3	11.1	7.7	13.5	Target
Retirement 2050	TRRMX	3.2	11.1	7.7	13.5	Target
Schwab S&P 500 Index	SWPPX	9.5	13.5	11.0	15.6	Large Co
Vanguard 500 Index Adm	VFIAX	9.5	13.6	11.1	15.6	Large Co
Balanced Index Adm	VBIAX	7.4	9.0	7.5	11.1	Balanced
Developed Markets Index Adm	VTMGX	−4.7	7.6	2.9	9.0	Foreign
Equity-Income Inv	VEIPX	7.5	11.2	9.5	15.1	Large Co
Explorer Inv	VEXPX	10.0	17.3	9.7	16.8	SmMid Co
Extended Market Index Adm	VEXAX	5.0	13.5	8.2	16.4	SmMid Co
Growth Index Adm	VIGAX	11.7	15.3	12.5	16.6	Large Co
Inflation-Protected Secs Inv	VIPSX	2.6	1.5	1.8	3.2	Bond
Institutional Index I	VINIX	9.5	13.6	11.1	15.6	Large Co
Instl Total Stock Market Index I	VITNX	8.9	13.6	10.6	15.9	Large Co
International Growth Inv	VWIGX	−3.0	14.4	6.8	12.1	Foreign
Mid Cap Index Adm	VIMAX	6.0	11.8	9.1	16.4	SmMid Co
Primecap Inv*	VPMCX	6.8	16.8	12.8	16.8	Large Co
Real Estate Index Adm	VGSLX	20.0	5.9	9.0	18.5	Realty
Small Cap Index Adm	VSMAX	5.6	12.9	8.3	16.7	SmMid Co
Target Retirement 2015 Inv	VTXVX	3.9	6.4	5.1	9.1	Target
Target Retirement 2020 Inv	VTWNX	3.8	7.5	5.8	10.0	Target
Target Retirement 2025 Inv	VTTVX	3.8	8.3	6.2	10.8	Target
Target Retirement 2030 Inv	VTHRX	3.7	9.0	6.5	11.4	Target
Target Retirement 2035 Inv	VTTHX	3.6	9.6	6.9	12.1	Target
Target Retirement 2040 Inv	VFORX	3.4	10.3	7.1	12.3	Target
Target Retirement 2045 Inv	VTIVX	3.3	10.5	7.2	12.4	Target
Target Retirement 2050 Inv	VFIFX	3.3	10.5	7.3	12.4	Target
Target Retirement Income Inv	VTINX	3.9	4.9	4.2	6.6	Target
Total Bond Market Index Adm	VBTLX	4.5	2.0	2.7	3.7	Bond
Total Intl Stock Index Adm	VTIAX	−5.2	8.2	2.9	8.7	Foreign
Total Stock Mkt Idx Adm	VTSAX	8.8	13.6	10.5	15.8	Large Co
Value Index Adm	VVIAX	7.2	12.2	9.6	14.8	Large Co
Wellesley Income Inv	VWINX	6.6	6.1	5.8	9.3	Balanced
Wellington Inv	VWELX	7.0	9.5	7.6	11.5	Balanced
Windsor Inv	VWNDX	−1.6	10.3	6.7	14.0	Large Co
Windsor II Inv	VWNFX	5.4	10.7	7.4	13.7	Large Co
Russell 2000 Index (small U.S. stocks)		**2.1%**	**12.9%**	**7.1%**	**15.4%**	
Bloomberg Barclays US Agg Bond Index		**4.5%**	**2.0%**	**2.7%**	**3.8%**	

As of March 31. *Closed to new investors outside 401(k) plans. —Fund not in existence for the period. **Key to categories: Balanced**=Balanced funds; **Bond**=Bond funds; **Foreign**=Foreign and global stock funds; **Large Co**=Large company funds; **Realty**=Real estate; **SmMid Co**= Small- or midsize-company funds; **Target**=Target-date funds. SOURCES: BrightScope, Morningstar Inc.

Make Your *Money Last*



CREATE A STREAM OF INCOME THAT WILL SEE YOU THROUGH RETIREMENT.

You've spent much of your career socking away part of each paycheck in your retirement accounts, carefully choosing your investments and faithfully sticking with your plan. Retirement is near—or perhaps you've recently retired. Now comes the complicated part. How do you make sure your savings will see you through your retirement? And another big question looms: How do you protect your nest egg during a bear market, which will inevitably come roaring back at some point?

To help answer those questions, we take a look at three key decisions for new retirees: how much you can safely withdraw from savings each year, how to protect against having to sell investments in a down market, and how to supplement Social Security to lock in income for life.

PART 1

Set Your Strategy

How do you tap a nest egg without depleting it too soon? The math is tricky because you don't know how long you'll need the money or whether you'll be hit with big medical or long-term-care bills. And no one can be certain that the stock and bond markets will deliver predictable returns over the next three or four decades.

To help new retirees navigate withdrawals, advisers often recommend the "4% rule." This strategy is designed to make a portfolio last 30 years—through bear markets and bouts of high inflation.

The rule is simple. Retirees in the first year of retirement withdraw 4% from their 401(k)s and other tax-deferred accounts, where most workers hold their retirement savings. Thereafter, retirees increase the dollar amount of their annual withdrawal by the previous year's inflation rate. For example, if you have a $1 million nest egg, you withdraw 4%, or $40,000, the first year of retirement. If inflation that year is 2%, in the second year of retirement you boost your withdrawal to $40,800. If inflation jumps to 3% that year, the dollar amount for the next year's withdrawal rises by the same rate, to $42,024.

Research behind the rule. This strategy has been a rule of thumb for millions of retirees, but it was considered radical when it was first proposed in 1994 by William Bengen. Bengen is an MIT graduate in aeronautics and astronautics who later became a certified financial planner.

"I got some hate mail," says Bengen, 71, now retired and living in La Quinta, Calif.

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Some of that mail was from financial advisers who had been telling clients they could safely withdraw 6% or 7% annually from their nest egg because the average annual return on a balanced portfolio was 7.5%, he says.

But those high withdrawal rates ignored the impact of bear markets. A bear market can devastate a nest egg if it happens early in retirement. Bengen looked at how portfolios would hold up under actual historical returns, including for someone who retired in the late 1960s and experienced two bear markets (1968–1970 and 1973–74) followed by a decade of high inflation. He concluded that a safe initial withdrawal rate from tax-deferred accounts for a 30-year retirement is 4%, with subsequent withdrawals adjusted for inflation.

Bengen recalculated his numbers for a 2006 book and found that by adding small-company stocks (which have greater growth potential than large-company stocks) to a portfolio, a retiree could bump up the initial withdrawal rate to 4.5%. When he made changes to the portfolio, Bengen also revised his 1994 recommended asset allocation of as much as 75% in stocks. Today, he recommends that retirees maintain a portfolio of half stocks and half bonds and cash.

Bengen says his rule was not meant to be etched in stone. A resumption of 1970s-style inflation—say, 9% or 10% a year—for a decade could cause the rule to fail, he says. Plus, as a planner, he would never have applied the rule without taking a client's total financial situation into account. For instance, a retiree who is determined to leave money to heirs might withdraw less, while another with a predictable, fixed-rate mortgage could take out more.

Other strategies. Some critics claim Bengen's rule is too stingy; others say it's too generous. Wade Pfau, a professor of retirement income at the American College of Financial Services, is in the latter camp. He says given how low interest rates have been, 3% would be a safer initial withdrawal rate for a 30-year retirement—or a 2.7% rate if you're planning for a 35-year retirement.

But Pfau says retirees could start with a withdrawal rate as high as 4.5% with the understanding that they will need to cut spending later, which most people naturally do after age 75. They can also buy an annuity that guarantees income for life to cover their basic expenses—allowing them to invest more aggressively.

The 4% rule still serves its purpose, "which is to help people translate a pile of money into a reasonable income stream," says Stuart Ritter, senior financial planner at T. Rowe Price.

Ritter suggests that retirees review their withdrawals annually, because spending doesn't always go up every year at the rate of inflation. And retirees should recalculate their withdrawal rate every five years to see whether adjustments are needed, he adds. If you weren't clawed by a bear market, your portfolio performed well, and you now have five fewer years of retirement to fund, you might be able to give yourself a raise beyond the annual inflation rate, Ritter says. You can run your own numbers—and find out the likely success rate of not running out of money before you run out of time—by using T. Rowe Price's Retirement Income Calculator at www.troweprice.com/ric. EILEEN AMBROSE

PART 2

Create a Bucket List

The 4% rule and its corollaries help ensure that your money will last through a 30-year retirement. The bucket system is extra insurance to help make sure you have enough until you kick the bucket.

Most people know that investing at regular intervals means you buy more shares when the market is low and fewer when the market is high. In retirement, you're making systematic withdrawals, which is the evil twin of dollar-cost averaging: You're selling more shares when the market is low and fewer when it's high. Each withdrawal exacerbates the decline when a fund falls in value and reduces the gains when the fund rises. In a severe bear market, pulling money from a tumbling fund can be catastrophic.

The bucket system is designed to keep you from doing just that. You divide your retirement money into three buckets: One is for cash that you'll need in the next year or two, including for major expenses such as a vacation, a car or a new roof. The next is for money you'll need in the next 10 years. The final bucket is for money

Tapping Life Insurance

If you've owned a permanent life insurance policy for many years, you may be able to buy an immediate annuity without tapping your retirement savings. You can convert your policy to an immediate annuity through what's known as a 1035 exchange. You'll give up the death benefit, but you'll lock in income for the rest of your life, or for a guaranteed number of years. The conversion is tax-free, but you'll pay taxes on a portion of each payout, based on the proportion of your basis (the amount you paid in premiums) to your gains. Your insurance company may offer a way to swap your policy for an annuity, but check with other providers to see if they offer a better deal.

A 1035 exchange is just one way to turn your permanent life insurance policy into a source of income in retirement. Permanent life insurance has two parts: the death benefit and the cash value, a savings account that's funded with a portion of your premiums. You can withdraw the amount in the cash value account up to the basis at any time, tax-free. In a market downturn, you could use this money as a cash cushion until your portfolio recovers.

You can also borrow against your policy. Interest rates range from 5% to 8%, depending on market rates and whether the loan is fixed or variable. If you don't repay the loan, or you pay back only part of it, the balance will be deducted from your death benefit when you die.

If your insurance policy pays dividends, you can use them to ride out market downturns, says Dave Simbro, senior vice president at Northwestern Mutual. Instead of reinvesting the dividends in the policy, you can take them in cash, reducing or eliminating the need to withdraw money from your portfolio. Dividends typically range from about 4.9% to 6.4%. Any dividends you receive up to the policy's cost basis are tax-free; those that exceed that amount are taxable. S.B.

you'll need in the more distant future, either for you or your heirs.

Now, soon and later. The peace of mind comes from your first bucket—the cash stash—which you fall back on when markets get rough. For most investors, the cash bucket should be equal to one or two years' worth of the difference between what you get from pensions and Social Security and what you'll need to cover expenses.

Short-term interest rates have stalled this year as the Federal Reserve has put rate hikes on pause. But think of your cash bucket as a hedge against a market decline. "When you take out fire insurance, you don't get upset when your house doesn't burn down," says Harold Evensky, a certified financial planner and chairman of Evensky & Katz/Foldes Financial.

Your second bucket should be the one that throws off the most income. Conservative investors might prefer a portfolio of laddered bank CDs or bonds. Investors who can stand a little more risk might toss in some high-yield-bond or preferred-stock funds. Aggressive investors might also mix in equity-income funds, which focus on dividend-producing stocks.

If the first bucket is *now* and the second bucket is *soon*, the third bucket is *later*. It should contain higher-growth, long-term investments, including stocks and alternative investments, such as commodities, real estate, hedge funds and the like.

Separate accounts. As a practical matter, it helps to have a separate account for each bucket, says Mark Paccione, director of investment research at financial planning firm Captrust. "We monitor the split between the three buckets and, depending on what's going on in the market, draw down from the income or growth bucket to replenish the cash bucket."

The test of the bucket system comes in years when gains are scarce. "During the 1987 stock market crash, when it looked like the world was going to end, I was in the office by seven o'clock in the morning, and the phone didn't ring," Evensky says. "I thought all my clients were dead or in the hospital." The reason they didn't call? "All my clients knew where the grocery money was coming from." **JOHN WAGGONER**

KIPTIP

You could invest in a managed payout fund, which guarantees a set monthly payout. The amount you'll receive will change at regular intervals, usually annually. Typically, if a managed payout fund doesn't earn enough to make the monthly payout, part of your check will be a return of your capital.

PART 3

Create Your Own Pension

Those who don't have a traditional pension are frequently envious of those who do. What could be better than a paycheck that lasts as long as you live and is unaffected by the vicissitudes of the stock market?

There's another way: Create your own pension with an immediate annuity. Unlike the complex (and usually high-cost) indexed annuities that are sold at free lunches and dinners, immediate annuities (sometimes known as single premium immediate annuities, or SPIAs) are straightforward: You give an insurance company a lump sum and, in return, receive a monthly check, usually for life.

With immediate annuities, security comes at a cost: Once you buy one, you usually can't get your money back. But investing some of your savings in an immediate annuity could help you sleep at night, particularly if you're worried about a market downturn. If your monthly payout covers your expenses, you'll have more flexibility to ride out a bear market because you won't have to tap your investments to pay the bills.

What to look for. If you're interested in buying an annuity, start by tabulating your cost of living. Break down your expenses into mandatory and discretionary categories. Once you've completed that exercise, you can buy an annuity that, along with Social Security benefits, will cover your basic expenses, such as groceries, your mortgage, utilities and property taxes.

Next, go to www.immediateannuities.com to get an idea of how much you'll need to invest to generate that amount of income. For example, if you're a 65-year-old man and need $1,500 a month to keep the lights on and food in the fridge, you'll need to invest about $267,000 for a single-premium lifetime annuity. If your wife is also 65 and you want an annuity that will continue to pay as long as one spouse is alive, you'll need a joint-and-survivor annuity. To generate $1,500 a month, you'll need to invest about $321,000. **SANDRA BLOCK**

Get Your Retirement in Shape with More Income and Less Market Risk!

Jerry Golden Responds to Boomer Questions on Planning for Retirement

Q1. Go2Income offers the free Income Power tool to determine the income your savings can generate for the rest of your life. Interesting, but how do you create a plan to hit that income or more?

Jerry: We've just launched our Income Allocation Planning (IAP) method, which is a free service on the Go2Income website. We believe IAP will reinvent retirement planning for the Boomer generation retiring with 401(k) or IRA assets but without a pension.

Q2. You believe most retirement planning today is flawed. Why do you believe IAP is the better alternative?

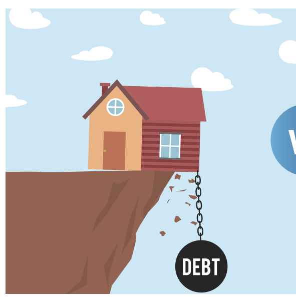
Jerry: Asset allocation is the planning method deployed in pre-retirement planning; however, when this planning is applied post-retirement it leaves the retiree saddled with most of the risks: investment risk, longevity risk, and the risk of not staying with the plan because of nerves or incapacity. IAP instead focuses on creating safe income by allocating among the sources of income: dividends, interest, annuity payments and withdrawals from savings. By managing and limiting riskier withdrawals, IAP provides more income with less market risk.

Q3. What else is different about the IAP method?

Jerry: The twin goals of the IAP method are to increase the amount of after-tax (spendable) income and to reduce income volatility (for more dependability). IAP differs from traditional retirement planning in three ways:

What's the Shape of YOUR RETIREMENT?

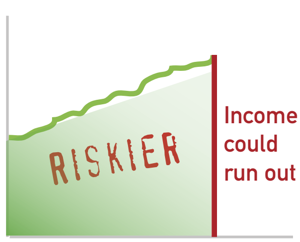
Plan for Retirement Residence

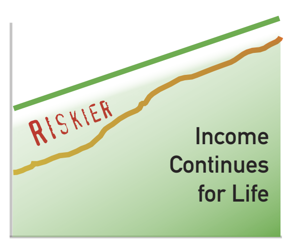


VS

Plan for Retirement Income

Traditional More Risk	VS	Income Allocation Less Risk





How can we investigate IAP on our own?

Jerry: Go to www.Go2Income.com/IncomeAllocation to create your own IAP without being an expert in investments, annuity payments or retirement planning. It's a free, no obligation service offered by Go2Income.

We've simplified planning with a picture of your IAP income above that starts high, increases steadily and continues for life, and compared it to the riskier shape of income in a typical planning method. Just like a retiree's residence, we want retirees to get their retirement income in the best possible shape.

Step 1. Uses annuity payments to provide guaranteed lifetime income. *Advisors often ignore annuity payments as an option.*

Step 2. Treats rollover IRA accounts differently than personal (after-tax) savings accounts for optimal tax efficiency. *Most calculators have a single investment allocation.*

Step 3. Manages withdrawals from rollover IRA accounts. *Retirees reaching 70 ½ often just withdraw IRS mandated Required Minimum Distributions from IRA accounts.*

Q4. We're a little skeptical about planning or financial products that sound too good to be true. What's the tradeoff if we follow the IAP method?

Jerry: The added value in IAP, besides the tax benefits and more flexible planning described above, comes from annuity payments guaranteeing lifetime income. The "cost" or tradeoff of including annuity payments may be a smaller legacy and liquid assets early in retirement. Eventually, the higher and safer income wins out later in retirement.

Jerry, Founder of Go2Income, has contributed his professional insights to the Wealth Creation Channel on Kiplinger.com. He is president and CEO of Golden Retirement, LLC, Golden Retirement Advisors and the 2Income Annuity Group insurance agency.

Social Security: Now or Later?

DELAYING BENEFITS WILL INCREASE THE SIZE OF YOUR CHECKS, BUT IT'S NOT THE BEST STRATEGY FOR EVERYONE.

SANDRA BLOCK

Many financial planners recommend waiting until at least your full retirement age—or, even better, until you're 70—to claim Social Security. You're eligible to file for Social Security as early as age 62, but if you do, your benefits will be permanently reduced by at least 25%. Waiting until full retirement age—66 for most baby boomers—means you'll receive 100% of the benefits you've earned. And if you continue to postpone filing for benefits after you reach full retirement age, your payouts will grow by 8% a year until you reach age 70.

That payout, combined with cost-of-living adjustments in most years, is a return you're unlikely to get anywhere else. Yet retirees seem to be ignoring the numbers: Nearly 60% of retirees claim benefits before age 66, and about one-third of those retirees claim benefits at 62. Are they misguided or onto something?

Figuring out when to file for Social Security usually comes down to a question that's nearly impossible to answer: How long will you live? Retirees who wait until full retirement age or later will receive fewer checks over their lifetime, but the checks will be for larger amounts. The longer you live, the more delaying pays off.

DO THE MATH

The age at which you come out ahead by postponing benefits is known as your break-even age. For example, a 62-year-old top wage earner would come out ahead by filing at 66 as long as he lives past age 77. If he delays filing for benefits until age 70, he would need to live past age 80 to break even. That's below the average life expectancy (84 for men and nearly 87 for women), but if you don't expect to live that long, there's no point in postponing your benefits.

However, if your grandmother celebrated her 100th birthday by playing a few rounds of golf, and you're fit and healthy, you're probably better off waiting until at least full retirement age to file your claim.

If you're married, there's another factor to consider even if your own health or your family history suggests you won't reach your break-even age: survivor benefits. For example, if you're the higher earner and you die first, your spouse will be able to take over your benefits. Delaying benefits will boost the monthly benefit your spouse will receive after you're gone.

Single retirees are usually better off waiting until full retirement age to file for

Social Security. But because you don't have to worry about survivor benefits (your benefits will end when you do), you have a less-compelling reason to wait until age 70 to file. Your decision will come down to how badly you need the income and how long you think you'll live.

It's usually not a good idea to claim benefits before full retirement age if you're still working. In 2019, Social Security will temporarily withhold $1 of your benefits for every $2 you earn over $17,640 if you haven't reached full retirement age. If you'll reach the magic number in 2019, it will withhold $1 for every $3 over $46,920 in earnings in the months before you hit full retirement age. After that, you don't have to worry about the earnings test.

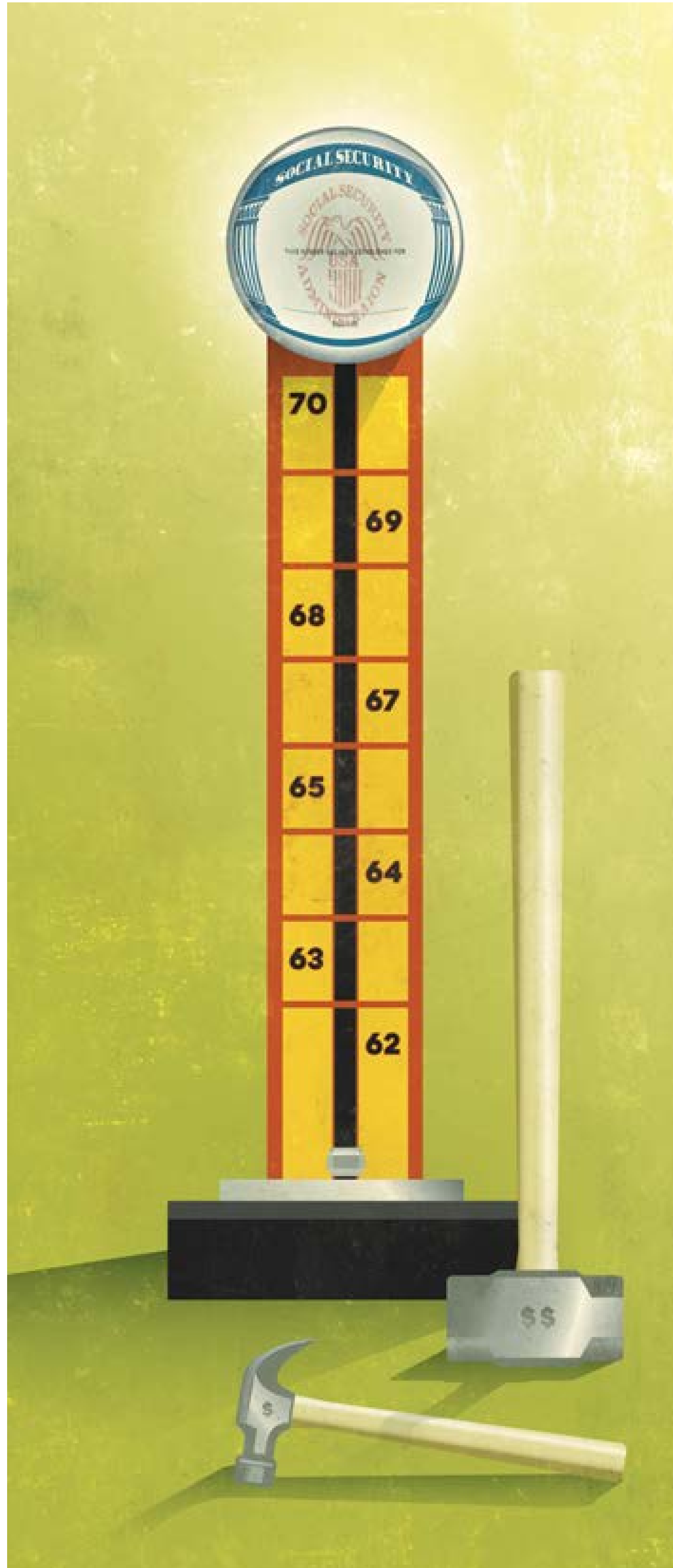
INVEST YOUR BENEFITS?

Before 2010, retirees who filed for benefits at age 62 and later changed their mind could withdraw their application, repay the total amount they had received and reapply for a higher benefit based on their age. Now, if you want to withdraw your application for Social Security and repay benefits, you must do it within 12 months after signing up, and you can do it only once. You still have the option of suspending benefits at full retirement age, which will allow you to accrue the 8% delayed-retirement credit until age 70.

Even with the payback option eliminated, some retirees remain convinced that they can come out ahead by filing at 62 and investing their benefits. That way, they argue, they won't leave money on the table if they die before their break-even age. This strategy also appeals to retirees who fear that a shortfall in the Social Security trust fund will force the government to cut future benefits.

But in order to beat the guaranteed return you would get by delaying benefits (plus cost-of-living increases), you'd need to invest most of your benefits in stocks, financial planners say. That could work out in your favor—but if the market turns bearish, you won't have years to recover your losses, says Gifford Lehman, a certified financial planner in Monterey, Calif.

Even in the best of times, this game plan



TRACI DABERKO

requires you to resist the temptation to spend your monthly Social Security check, says Jim Blankenship, a CFP in New Berlin, Ill. "Many, if not most, folks don't have the discipline to invest the money, and before you know it the projected windfall from filing early has been eaten up by lifestyle creep," he says.

What about worries that Social Security won't be around if you wait? The trust fund is slated to run out of money in 2034. It's unlikely, though, that Congress will do nothing over the next 15 years to fix Social Security. And at that point, payroll taxes would still fund 79% of promised benefits. Any actions Congress takes to shore up the trust fund probably won't affect current retirees.

HOW TO BRIDGE THE GAP

Some retirees file for Social Security before full retirement age because they're reluctant to tap their retirement plans. Filing for Social Security benefits early may allow you to postpone taking money out of savings, but that strategy may cost you more in the long run.

IT'S UNLKELY THAT CONGRESS WILL DO NOTHING OVER THE NEXT 15 YEARS TO FIX SOCIAL SECURITY.

Here's why: Once you turn 70½, you must withdraw required minimum distributions from all of your tax-deferred retirement plans, based on your life expectancy and the balance in those plans at year-end. Leaving those accounts untouched until you turn 70½ will increase the size of mandatory withdrawals, along with your tax bill. Depending on your other income, you could find yourself vaulted into a higher tax bracket. Large RMDs could also trigger taxes on up to 85% of your Social Security benefits, plus a surcharge on your Medicare Part B and Part D premiums.

By taking withdrawals from your retirement plans before you hit your seventies, you can reduce the size of those accounts, which will result in smaller taxable RMDs, says Cindi Hill, a certified financial planner with CUNA Mutual Group. You can take money from your tax-deferred accounts with a fairly high degree of confidence that your savings will last 30 years or more—through bear markets and bouts of inflation—if you follow the "4% rule" as a starting point. In your first year of retirement, you withdraw 4% from savings, and you increase the dollar amount of your subsequent annual withdrawals by the previous year's inflation rate. You may decide to dial back withdrawals once you start taking Social Security benefits, but the rule is a good starting point.

While this strategy is designed to ensure that you won't outlive your money, it's not bulletproof. During the 2008 economic downturn, some retirees were forced to withdraw money from depressed portfolios, inflicting permanent damage to their savings. In that scenario, filing for Social Security benefits before age 70 could enable you to postpone withdrawals until your investments have recovered. Cary Cates, a certified financial planner in Denton, Texas, says he often advises clients to plan on filing for benefits at age 70 but to be prepared to file earlier if their investment portfolio suffers a significant decline. "This reduces the need to sell securities when the value is depressed," he says.

Another way to protect yourself from market downturns is to use an immediate annuity to cover your expenses until you file for benefits. Suppose you're 65 but want to wait until you're 70 to claim benefits—and that claiming now would provide $2,093 a month in benefits. For about $120,650, you could buy an annuity that provides the same amount each month for five years, at which point you would file for Social Security.

Thanks to estimated cost-of-living adjustments and the 8% delayed retirement credit, your benefits would be worth more than $3,600 a month. If you live until at least age 83, you'll come out ahead. You can shop for an immediate annuity and compare rates at www.immediateannuities.com.

What to Do If You Are (Or Were) Married

For married couples, claiming benefits "is a household decision, not an individual decision," says Paula McMillan, a certified financial planner in Greensboro, N.C. Under a couple of scenarios, it makes sense for one spouse (or widowed spouse) to claim benefits before full retirement age.

You're the lower-earning spouse. If you were born on or before January 1, 1954, you can still take advantage of a strategy known as restricting an application to increase the combined payout of your benefits as a couple. Here's an example of how it works: One spouse files for Social Security benefits before full retirement age, while the other—who must have already reached full retirement age—files a restricted application to collect spousal benefits only, which are equal to half of the first spouse's full benefits. The second spouse waits until 70 to collect his or her own benefit, thus taking advantage of delayed retirement credits.

Even if you're ineligible for that strategy, it may make sense for the lower-earning spouse to file as early as age 62, says Jim Blankenship, a CFP in New Berlin, Ill. While that spouse will see a 25% reduction in benefits, the couple can use income from the lower-earning spouse's benefits, along with other sources of income, to pay expenses, enabling them to delay the higher earner's benefits until age 70.

You're eligible for survivor benefits. You can file for Social Security based on your late spouse's earnings as early as age 60 (50 if you're totally disabled). Your benefits will be based on your deceased spouse's benefits when he or she died. If your spouse died before filing, your payout will be based on the amount your spouse would have earned at full retirement age.

To receive 100% of your late spouse's benefit, you must wait until your own full retirement age to file; otherwise, it will be reduced by a certain amount for every month you file your claim before your full retirement age. But whether you wait until full retirement age or file earlier, claiming survivor benefits won't affect your own payout. Claiming survivor benefits—even if they're smaller than your own—allows your own benefits to continue to grow. At age 70, you can switch to your own benefits, which will have been enhanced by the delayed retirement credit.

Survivor benefits are also available to divorced spouses whose former spouses have passed away, although many don't realize they're eligible, says Jayson Owens, a CFP in Anchorage, Alaska. If you were married for at least 10 years, you can claim benefits as early as age 60 based on your late ex's earnings record. As is the case with surviving spouses, this strategy offers a way to postpone claiming your own benefits until age 70, Owens says. Remarriage won't affect your eligibility for survivor benefits as long as you're at least 60 years old (50 if you're totally disabled).

On the Menu: Annuities

WHEN A FINANCIAL ADVISER INVITES YOU TO A FREE MEAL, WATCH OUT FOR THE HARD SELL.

BY EILEEN AMBROSE

After years of declining sales, annuities are hot again. Annuity sales in 2018 climbed to $232 billion—a 14% increase over 2017—reports the Limra Secure Retirement Institute, an industry research group.

Part of the reason for the resurgence is that rising interest rates are increasing payouts, making these insurance products more attractive to investors. But much of the credit for the rebound goes to the demise last year of the fiduciary rule—the U.S. Department of Labor rule that would have required brokers and others to put clients' financial interests ahead of their own when giving retirement-account advice.

Insurers offer several kinds of annuities, from straightforward to downright confusing. *Kiplinger's* often recommends the plain-vanilla type to retirees: an immediate income annuity that can generate enough income along with Social Security and, perhaps, a pension to cover basic living expenses. But other types—namely, variable and indexed annuities—are complicated, often carry high fees or commissions, and are periodically the subject of investor alerts from regulators.

"FREE" DINNERS

The more complex flavors of annuities are often on the menu at free dinners staged by financial professionals to attract new clients. David Fuith of Shoreview, Minn., a suburb of St. Paul, attended a few such free dinners, hoping to find an adviser. After a meal of steak and chicken at a restaurant last year, Fuith, an editor at a legal publishing firm, agreed to follow-up meetings with the firm hosting the dinner.

During the third meeting, an adviser recommended an annuity. Fuith says he isn't sure what kind it was, and thinks some details were glossed over, but from his description it appears to have been an indexed annuity. The adviser wanted Fuith to put 90% of his assets held outside IRAs and a 401(k) into the annuity. He also suggested that Fuith sell a mutual fund he had owned for 25 years so he could invest the proceeds in the annuity—although Fuith says that would have triggered a big capital-gains tax bill. But Fuith balked at tying up so much of his money in the annuity.

The adviser said he was willing to negotiate. "My idea would be to put 10% or 20% in an annuity. Their idea was 90%. That's a lot of real estate to negotiate," says Fuith, who didn't buy the annuity. "Maybe I ought to have some modest percentage of my money in annuities," he says, "but I can't invest in something I don't understand."

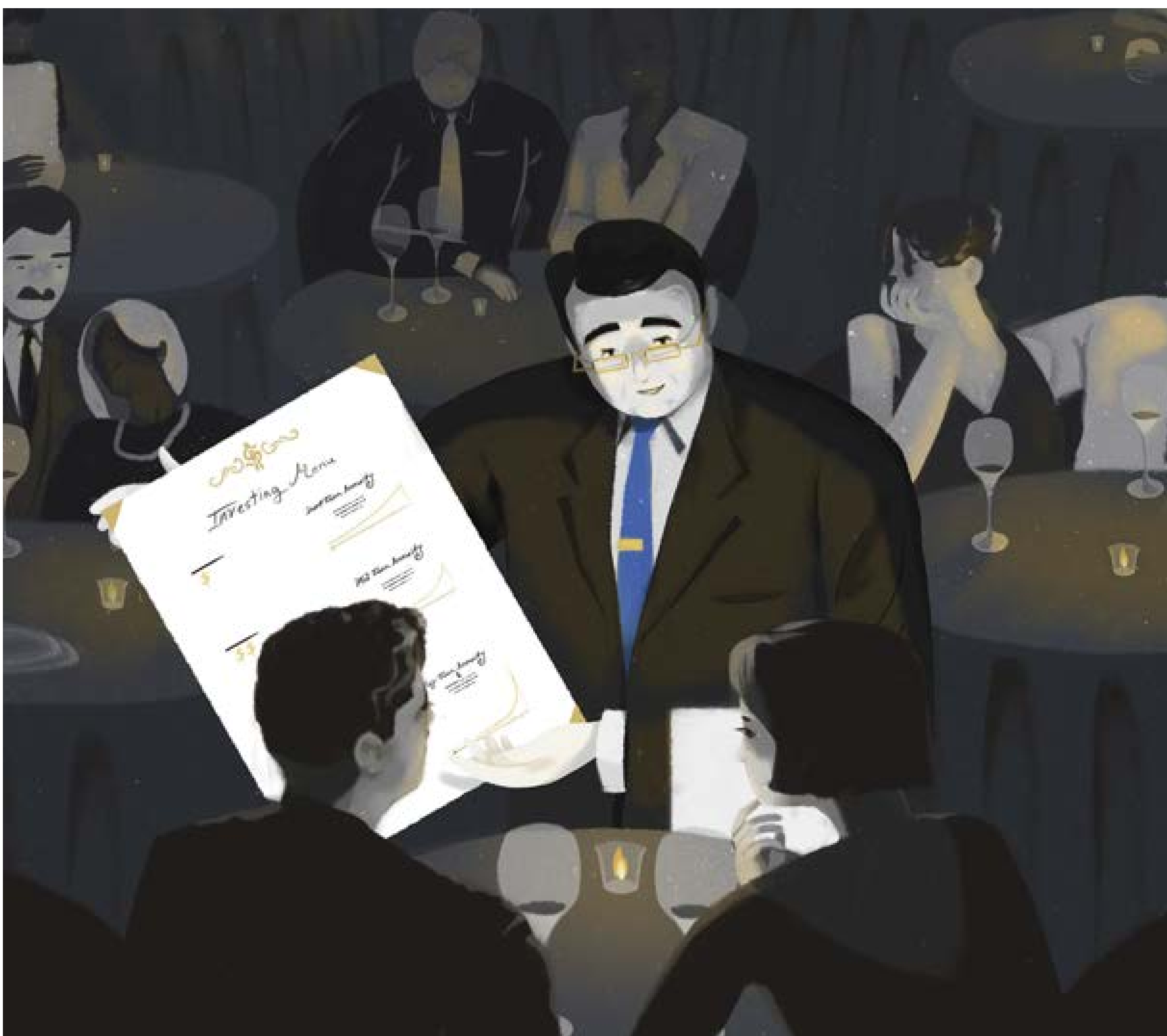
Gerri Walsh, senior vice president of investor education at the Financial Industry

Regulatory Authority (Finra), says a free-dinner seminar can be a legitimate way for companies to prospect for clients and for consumers to learn about a new product or strategy. "But ultimately, whether the hard sell happens at the seminar or happens later, the person putting on the seminar and providing you with the meal is hoping to do business with you," she says. "If you go to one of these pitches, go with an open mind. But don't go with your checkbook open."

PROS AND CONS

Annuities can provide a valuable income stream in retirement, especially for those without a traditional pension. Recognizing this, the government now allows people to use a portion of their pretax 401(k) and IRA money to buy a deferred-income annuity—sometimes called longevity insurance—that would start payouts at, say, age 80. And Congress has been weighing legislation to encourage more employers to offer annuities within their 401(k)s.

Some planners recommend variable annuities to high-income savers who have maxed out their 401(k)s and IRAs and want another tax-deferred investment. Indexed annuities are often pitched as a way for older investors to potentially enjoy some of the upside of the market without losing principal.



JACOB MYRICK

Sounds simple enough, but variable and indexed annuities are far from simple, and terms and riders may differ from insurer to insurer. Even some financial experts admit that they have difficulty describing how they work.

"Variable and fixed indexed annuities are the most complex, opaque and conflict-ridden, because they pay the people recommending the annuities the highest commissions and give them other types of perks," says Micah Hauptman, counsel with the Consumer Federation of America.

The Labor Department's fiduciary rule was supposed to curb conflicts of interest when brokers and others give advice on retirement accounts. The rule required advisers to put a client's interests first, instead of recommending the investment that paid the highest fees and commissions.

ANYONE OFFERING YOU AN ANNUITY SHOULD REVIEW YOUR FINANCES AND GOALS FIRST TO DETERMINE IF ONE WOULD WORK FOR YOU.

The prospect of the rule's implementation depressed sales to holders of retirement accounts. In 2016, the year after the fiduciary rule was announced, variable-annuity sales fell $28 billion. But a federal court last year struck down the rule, saying that the Labor Department had exceeded its authority, and the Trump administration didn't appeal. Todd Giesing, annuity research director at Limra, says uncertainty over the rule's status affected sales. But even if the court hadn't struck down the rule, he adds, annuity sales would have rebounded as companies and brokers adapted.

Meanwhile, the Securities and Exchange Commission has proposed an alternative rule that would require brokers to act in the best interest of clients. "Regulation Best Interest" aims to enhance disclosures to clients, but consumer advocates say the rule doesn't even define what "best interest" means and is much weaker than the fiduciary standard.

The SEC proposal, expected to be finalized this year, would apply only to brokers selling securities, which includes variable annuities, says Hauptman. It would not apply to indexed annuities, sales of which are regulated by state insurance commissioners. Insurance regulation is typically more lax than securities regulation, Hauptman says, so "that's where you get a lot of the bad incentives and bad practices."

LOOK BEFORE YOU LEAP

Anyone offering you an annuity should review your finances and goals first, and only then determine if an annuity would work for you. Kashif Ahmed, a CFP in Bedford, Mass., says you should be asking, "What hole in my plan is this going to solve?"

One criticism of annuities is that they can be a more expensive way to accumulate retirement savings than using low-cost mutual funds, says Jamie Hopkins, director of retirement research at the Carson Group. Plus, you'll pay capital-gains taxes on the earnings from a fund, which tend to be lower than the regular-income taxes that apply to annuity withdrawals.

But if you're highly risk-averse or likely to sell in a panic when stock prices fall, investing in an indexed annuity or a variable annuity with a rider providing protection in a market downturn can be worthwhile if it keeps you in stocks, Hopkins adds.

Before pulling the trigger, ask about fees and the penalties for pulling out of the contract early. Ask how the adviser is being compensated by the insurer, including any sales incentives, because that could be a big driver behind the annuity recommendation. A salesperson might receive 5% or 6% of the sale—or opt for a slightly smaller percentage up front and get a trailing commission of, say, 0.25% annually for the life of the annuity, says Ashley Foster, a CFP in Houston.

Also, check out the background of the adviser selling the annuity. At https://brokercheck.finra.org, you can review the record of brokers selling variable annuities. Go to www.naic.org for links to state insurance departments, where you can check on agents selling other types of annuities.


FRANKLIN

Navigating the **Medicare Maze**

Turning 65 can make a big difference in your finances. That is when you qualify for Medicare, the government-subsidized health care program. But lest you get too complacent, Fidelity reminds us that retirees will need $285,000 per couple for medical costs—mostly to cover Medicare and Medicare supplement premiums, plus the costs Medicare and medigap won't cover. The Employee Benefit Research Institute projects that at age 75, retirees will likely spend more on health care than on food and clothing combined.

THE INS AND OUTS OF MEDICARE

Start by signing up for Medicare Part A, which covers hospitalization costs, when you reach age 65. There is no charge for Part A (you've been paying for it throughout your career via payroll taxes). In most cases, you should enroll in Part A even if you continue to work and are covered by an employer health insurance plan. If you're retired, you should also sign up for Part B, which covers doctors' visits and outpatient services.

Your monthly Part B premium is usually deducted from your Social Security benefits. If you are not yet collecting Social Security, you'll get a bill for your Part B premium. Most people pay $135.50 per month for Medicare Part B in 2019.

The initial enrollment period for Medicare Part B runs for seven months, starting three months before your birthday month and continuing for three months afterward. You can sign up online at www.socialsecurity.gov or contact the Social Security Administration (800-772-1213). If you miss the seven-month window, you could incur a 10% penalty for each year you delay beyond your initial enrollment period—for as long as you have Part B. Plus, you'll have to wait until the next Part B general-enrollment period, which runs from January 1 to March 31 each year, for benefits beginning the following July 1.

Special rules apply if you're eligible for Medicare and still working. If you have health insurance through your employer or your spouse's employer, you aren't subject to the 10% late-enrollment penalty as long as you sign up for Part B within eight months of losing that coverage. If your employer offers a high-deductible health policy, you may want to delay signing up for Part A so you can keep contributing to a health savings account (contributions to

SPECIAL RULES APPLY IF YOU'RE ELIGIBLE FOR MEDICARE AND STILL WORKING.

BY KIMBERLY LANKFORD

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an HSA must stop before you sign up for Medicare).

Also, if you have employer-provided prescription-drug coverage, you can avoid a late-enrollment penalty for Medicare Part D, which covers prescription drugs. If you miss the initial seven-month enrollment period, you can sign up for Part D during the regular open-enrollment period, from October 15 through December 7.

FILLING THE GAPS IN MEDICARE

Even though Medicare parts A and B cover the bulk of medical expenses after age 65, there are deductibles, co-payments and other out-of-pocket costs, and they don't cover prescription drugs. You have three ways to fill those gaps: retiree health insurance (if you still have it); a medigap policy plus a Medicare Part D prescription-drug policy; or a private Medicare Advantage plan, which covers both medical and drug costs.

Medigap policies usually have higher premiums but fewer out-of-pocket costs than Medicare Advantage plans, and you can use any doctor or hospital that accepts Medicare. Some Medicare Advantage plans charge nothing beyond the Medicare Part B premium, but they tend to have more out-of-pocket costs and a limited network of doctors and hospitals.

How to shop for medigap. Most Medicare beneficiaries buy a medigap policy to fill the holes in Medicare. As long as you buy a policy within six months of signing up for Medicare Part B, the insurer can't reject you or charge higher rates because of your health.

Medigap policies are offered by private insurers, but the government has standardized coverage by assigning a specific

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letter—A, B, C, D, F, G, K, L, M or N—to make it easier to comparison shop.

Plan F continues to be the most popular. It covers Medicare's $341 daily co-payment for days 61 to 90 in a hospital (Medicare covers the total cost of the first 60 days of a hospital stay) and the $682 co-payment for days 91 to 150 of a hospital stay. Plus, it pays the full cost of up to 365 additional days in a hospital during your lifetime. Plan F also covers the 20% co-payment for doctors' services, the $1,364 Part A hospital deductible, the $170.50-a-day coinsurance for a skilled-nursing facility, the $185 Part B deductible, Part B excess charges, and emergency care outside the U.S.

As of 2020, Plan F will no longer be sold, but Plan G provides most of the same coverage (however, it doesn't include the Part B deductible). Plan C is also being phased out. But current Plan C and Plan F beneficiaries can keep their plans.

M and N are the newest plans, introduced in 2010. They are a bit cheaper than the others because they don't provide coverage for Part B excess charges or the $185 Part B deductible. Plan M requires you to pay 50% of the Part A deductible; Plan N covers the Part A deductible but requires a $20 co-payment for doctors' office visits and a $50 co-payment for emergency room visits.

Each medigap plan with the same letter has exactly the same coverage, no matter which insurer offers it. But premiums can vary significantly. Begin by picking the letter plan that works best for you and then comparison shop to find the best price. Most state insurance departments list prices for medigap policies in your area. Visit www.naic.org/map for links to your state insurance department.

After you've compared prices, check the pricing method. "Attained-age" policies increase the premiums as you get older. Prices for "issue-age" policies increase only because of health-care inflation, not because of your age. An issue-age policy may be a little more expensive than an attained-age policy at first, but it will generally have fewer rate increases over time. "Community-rated" policies are similar to issue-age policies, but everyone in the area pays the same price regardless of age. You'll usually do best picking the lowest-cost issue-age or community-rated policy.

All-in-one Medicare Advantage. Instead of paying separately for a Medicare supplement policy and a stand-alone Part D drug plan, you could sign up for a Medicare Advantage plan, which provides all-in-one coverage from a private insurer. Premiums for a Medicare Advantage plan are usually lower than for a medigap policy plus a Part D plan combined.

The average plan costs about $28 per month, but you're still on the hook for the Part B premium. Some Medicare Advantage plans charge nothing above the Medicare Part B premiums, although those plans tend to have some of the most limited networks of providers.

Medicare Advantage plans also tend to have higher out-of-pocket costs than medigap policies, but the plan may also provide extras, such as vision and dental coverage. Medicare Advantage plans must limit out-of-pocket costs for services you receive from in-network providers to $6,700 per year, but some plans have lower limits.

You can sign up for a Medicare Advantage plan when you're first eligible for Medicare and can always switch plans during open enrollment each year. You can review plans in your area by using the Medicare Plan Finder tool (www.medicare.gov/find-a-plan). Click on "Medicare Health Plans," then select your drugs, dosages and general health condition. The site will then estimate your out-of-pocket costs based on your medications and general health for plans in your area. Make sure your doctors, hospitals and pharmacies are covered.

Note how many stars a plan gets. The government's star ratings for quality assess each plan's coverage, communications and customer service.

For help in choosing a plan, find a State Health Insurance Assistance Program counselor in your area. Go to www.shiptacenter.org or call 800-633-4227. Another resource for Medicare Advantage plans is the free annual Cost Share Report, available at www.medicarenewswatch.com.

KIP TIP

For more information on medigap coverage, see "How to compare Medigap policies" at www.medicare.gov. The Medicare Rights Center (www.medicarerights.org) also offers information about medigap policies, and the Medicare Plan Finder (www.medicare.gov/find-a-plan) can help you find policies in your area.

Paying for Long-Term Care

YOUR OPTIONS RANGE FROM A TRADITIONAL POLICY TO TAPPING YOUR LIFE INSURANCE BENEFITS.

BY KIMBERLY LANKFORD

You've heard it before: Long-term-care costs can shatter your retirement nest egg. The average cost of a private room in a nursing home is more than $100,000 per year, and the average amount of time people need some kind of long-term care is about three years.

But there are crucial nuances in real life. A frequently cited statistic says that if you're 65 years old, there's a 70% chance you'll need long-term-care services during your lifetime—but that includes unpaid care by family. Plus, you may need care for only a few weeks or months.

A study by the U.S. Department of Health and Human Services projected that 48% of people turning 65 between 2015 and 2019 won't need any paid care. But more than one-fourth will need more than $100,000 of care, and 15% will require care that costs more than $250,000. The bill could top $500,000 over five years for someone with dementia in a memory-care unit in a nursing home. "Insurance would never have been invented if everybody were average," says Claude Thau, an actuary and long-term-care consultant in Overland Park, Kan.

That's why it's important to assess the risks, says Jean Young of the Vanguard Center for Investor Research and co-author of a study analyzing health care costs in retirement. The study concludes, "Even if the probability of incurring expensive care is relatively low, the number is at a magnitude that is hard to ignore."

Financial planners tend to start talking about long-term-care costs when their clients' financial focus shifts from raising kids to envisioning retirement. Many people in their fifties and sixties have seen how much long-term care has cost their parents and want to protect some of their savings if they end up needing care themselves.

PERSONALIZE THE RISK

Because the cost of care can vary so much from person to person, it's essential to look at your own risks, the types of care you want, costs in your area, and your savings and income when figuring out how to incorporate care costs into your financial plan.

Thau recently created a tool that uses long-term-care claims data to help planners get a better estimate of the financial risks of long-term care for their clients. Included are questions about gender, age, marital status, geography and the client's network of potential caregivers.

"It's a very individual math problem

ASHLEY BLAKE

Karen Petersen bought a long-term-care insurance policy that covers $200 a day for four years.

to solve for each client," says Brooke Salvini, a certified financial planner in San Luis Obispo, Calif., and a member of the American Institute of CPAs' personal financial planning executive committee. Salvini begins her consultations with clients by explaining the average cost of different types of care using Genworth's Cost of Care study (www.genworth.com/costofcare). She then asks questions to help them estimate their own costs, such as whether they plan to stay in the area or move to be near children (care costs can vary significantly by city) and whether they'd like to receive care in their home or move to a retirement community or assisted-living facility. She recommends going on a shopping trip to find out how much the places they're interested in cost now. The specifics can change by the time you need care, but knowing the costs can give you more-realistic numbers to factor into your retirement plans.

Salvini uses four years as a starting point, then discusses risk factors that could increase the length of care, such as a family history of dementia. Then she looks at her clients' savings, home equity and retirement income to determine how much they can afford to pay at the age they're likely to need care (usually about 80). She factors in a drop in regular expenses—for example, they won't have housing expenses if they move to an assisted-living facility. "We usually aren't fully insuring because that can be so expensive," she says. Most people pay for long-term care by tapping several sources, including their savings and home equity, she says.

After they figure how much of a gap they'd like to fill with insurance, they look at several coverage options, including traditional long-term-care policies and hybrid life insurance policies that also provide long-term-care benefits. Some also consider how much extra they'd need to start saving now to cover the potential costs themselves.

Karen Petersen, 60, of San Luis Obispo, started working with Salvini when she and her husband separated about 10 years ago. They had discussed long-term-care expenses for a few years, but Petersen finally took action five years ago after a friend was diagnosed with ALS in her forties. Petersen and Salvini calculated the costs in her area, where she'd like to stay, and how much she could cover from her savings and retirement income. After Salvini showed her three long-term-care insurance options, Petersen chose a Genworth policy that covers $200 per day for a four-year benefit period and increases by 5% per year. She pays $3,327 per year for the policy.

ONE WAY TO HEDGE YOUR BETS IS TO GET A POLICY WITH SHARED BENEFITS WITH A SPOUSE OR PARTNER.

Petersen's mother lived in assisted living for several years and spent one year in a nursing home before she died at age 88. Petersen doesn't want her children, who are 26 and 29 and live hundreds of miles away, to worry about how she'll pay for care. "I want my kids to know that I'm taking care of myself," she says.

Some people are reluctant to pay premiums for insurance they may not use and would rather self-insure. Ken Weingarten, a certified financial planner in Lawrenceville, N.J., says people with $2.5 million to $3 million in savings may have enough money to self-insure if they have a high level of retirement income from pensions and Social Security and have average long-term-care expenses. But if they don't have pension income, he says, "they may be on the cusp."

"What if they get dementia and they need memory care that costs $150,000 per year for eight to 10 years? That can start digging into a portfolio."

Weingarten and his wife, Trina, both now 51, bought long-term-care insurance when they were in their late thirties—much younger than usual—because of his parents' experience. Weingarten's mother was diagnosed with multiple sclerosis when he was a teenager and needed increasingly more expensive care for several years before she died. She had some long-term-care coverage through his father's company. But after his mother's care costs exhausted the policy, his parents spent down almost all of their savings and eventually turned to Medicaid, which paid for his mother's nursing home but left his father at age 50 with just the couple's house, car and limited retirement savings.

Stuart Chen-Hayes, 56, and his husband, Lance, 55, both had a parent with dementia or Alzheimer's. When they started working with Weingarten four years ago, they determined that they were on target for their retirement-planning goals but were underinsured for liability insurance, life insurance and long-term care.

They figured they could cover some of the long-term-care expenses with savings and current income but wanted insurance to help. They pay about $1,100 per year each for policies with shared benefits, which lets either of them tap into the other's pool of money if they need more coverage. The policies provide them both with monthly benefits of $4,000 for up to four years, creating a pool of benefits worth almost $200,000 each, which increases by 3% per year for inflation.

WAYS TO COVER THE COST OF CARE

There are several ways to pay for long-term care. John Ryan, an insurance specialist in Greenwood Village, Colo., who works with fee-only financial planners, usually shows how much it would cost to provide the same monthly benefit in several different ways (see the box on the next page). Each option has pros and cons.

A traditional LTC policy is usually the most efficient way to cover costs if you end up needing care. You choose the daily or monthly benefit and the benefit period, and usually an inflation adjustment of 3% per year. Choosing a smaller daily benefit but a longer benefit period tends to cost less for the same total pool of money, says Tom Hebrank, of Advanced Planning Solutions in Marietta, Ga. The earlier you buy the coverage, the lower your annual premiums will be, but you'll have to pay premiums for a longer period of time.

One way to hedge your bets is to get a policy with shared benefits with a spouse or partner. For example, if you each bought a shared policy with three years of benefits, you'd have a total pool of six years that either spouse could use. This tends to increase premiums by 15% to 30% per year but may make you more comfortable choosing a shorter benefit period, says Brian Gordon of MAGA Ltd., a Chicago-based agency specializing in long-term care that works with financial planners.

Most policies with shared benefits let both spouses share the total pool of money, but some provide an extra pool of benefits. Mike and Kristi Henritze of Windsor, Colo., bought New York Life policies last

Four Ways to Cover Long-Term Care

For a 55-year-old man or woman who wants to cover $4,500 a month for **three** years, options range from a traditional insurance policy to a deferred-income annuity.

	1 TRADITIONAL LONG-TERM-CARE POLICY**	2 HYBRID LIFE INSURANCE/ LTC	3 LIFE INSURANCE WITH CHRONIC CARE RIDER	4 DEFERRED-INCOME ANNUITY
Annual premiums	M $1,533 W $2,475	FOR 10 YEARS: M $9,562 W $10,304	M $6,508 W $5,669	LUMP SUM PAID AT AGE 55: M $298,083 W $362,418
Total premiums* (over 25 years)	M $38,325 W $61,875	M $95,620 W $103,040	M $162,700 W $141,725	M $298,083 W $362,418
Total payouts† (over three years)	M $329,313 W $329,313	M $339,291‡ W $339,291‡	M $336,960 (plus $132,000 death benefit) W $344,160 (plus $133,000 death benefit)	M $339,192 W $339,192 ($113,064 annual payouts continue for life)
Value if no care is needed	M $0 W $0	DEATH BENEFIT: M $108,000 W $119,526	DEATH BENEFIT: M $468,000 W $478,000	M $113,064/YR. W $113,064/YR.

*Total premiums are to age 80 (assumes premiums will not increase for the traditional long-term-care policy). †Total payouts start at age 80 (assuming the $4,500 monthly benefit rises by 3% compounded each year). **Assumes a 90-day waiting period. Premiums for the man would be $1,245 and woman $2,010 if they received a couples discount and shared benefits. ‡Monthly payouts ($9,148 at age 80) can continue for up to six years.

SOURCE: John Ryan, David Eisenberg and Jerry Golden year, when he was 49 and she was 47, that cost $1,646 per year for Mike and $2,015 per year for Kristi. They get a 25% couples' discount for buying the coverage together, and both have $200 in daily benefits for three years, which equals a benefit pool of about $200,000 each. They can also increase their benefits (and premiums) based on changes in the Consumer Price Index every year. They paid 25% more to add an extra $200,000 pool of benefits that either can use.

It's becoming more difficult to qualify for long-term care insurance if you have any health issues. Some companies only insure 50% to 60% of applicants, compared with 90% in the 1990s, says Gordon. A surprising number are rejected because of their height/weight ratio, and some companies are limiting coverage if a parent had Alzheimer's. Standards vary by insurer; Gordon asks a lot of medical questions to help pinpoint the company with the best deal before his clients apply.

Most long-term-care policies pay out if you need help with two of the six activities of daily living (such as bathing and dressing) or have cognitive impairment, and they cover care at home, in an assisted-living facility or in a nursing home. Some require you to use a licensed caregiver from an agency.

Premiums can increase after you buy the policy, which has happened to many people over the past 20 years. Ryan recommends being prepared for premium increases of 20% every five years, although prices tend to be more stable on newer policies.

Hybrid life insurance/long-term care. More insurers are offering life insurance that provides extra coverage for long-term care. You usually pay a lump sum or premiums for 10 years, and you can receive a death benefit worth slightly more than your premiums if you don't need care. If you do need care, you can receive about three times the death benefit in long-term-care coverage. Long-term-care payouts are subtracted from the death benefit.

For example, with Lincoln Financial's MoneyGuard, a 55-year-old woman paying $10,000 a year for 10 years would qualify for a $4,370 monthly benefit for six years, with benefits compounded by 3% annually. If she died without needing long-term care, her heirs would receive $104,820. Hybrid policies tend to be a good deal for single women, who generally pay 50% more than single men for traditional long-term-care policies. If you already have permanent life insurance, you can make a tax-free exchange, called a 1035 exchange, into a hybrid life insurance policy that provides long-term-care benefits.

Life insurance with chronic care rider. These policies let you access a portion of your death benefit early if you meet the standard long-term-care triggers. Some companies charge 5% to 15% extra for this feature; others don't charge extra but reduce your death benefit by more than dollar-for-dollar if you withdraw money for care.

You can usually withdraw up to 2% of the death benefit each month, says David Eisenberg of Quantum Insurance Services in Los Angeles. The policies can provide some long-term-care coverage for people who are getting life insurance anyway. But the amount of coverage you receive may be limited, and your heirs won't receive money you use for care.

Deferred-income annuities. These annuities don't provide coverage specifically for long-term care, but they can provide income for the rest of your life starting in, say, your eighties, when you're likely to need care. A 60-year-old man who invests $130,000 in a New York Life deferred-income annuity will receive $37,327 per year starting at age 80, says Jerry Golden, of Golden Retirement in New York. You'll get payouts even if you don't need care, but they stop when you die.

Your payouts will be lower if you choose an option that would allow your heirs to receive a lump sum based on your original investment, minus any payouts made to you. You can invest up to $130,000 of your IRA (but no more than 25% of your balance) in a version of a deferred-income annuity, called a qualified longevity annuity contract (QLAC). The money isn't included in your required minimum distribution calculation. K

KIP TIP

Rate increases that were approved by states in 2018 are now affecting policies up for renewal. If you get a rate increase notice, you usually have a few choices. You could pay the extra premiums and keep the policy as is, or you could keep premiums the same and make changes to the coverage, such as reducing the inflation protection from 5% to about 3%, or reducing the benefit period from five years or more to about three years.

Health Insurance for **Early Retirees**

IF YOU'RE TOO YOUNG FOR MEDICARE, THE BEST PLACE TO SHOP FOR A POLICY IS YOUR STATE EXCHANGE.

BY KIMBERLY LANKFORD

In the past, one of the toughest challenges for early retirees was finding affordable insurance until Medicare kicked in at age 65—especially if they had health issues. But the health insurance options for early retirees changed significantly with the implementation of the Affordable Care Act (ACA). With policies that meet the ACA standards, health insurers can't reject anyone or charge higher rates because of their health. The law also sets limits on how much insurers may charge older buyers.

The market experienced tumult for a few years, when many insurers stopped selling individual policies or boosted premiums by double digits. But more insurers are selling individual policies again, and prices are stabilizing. Also, in 2019, you are no longer charged a federal penalty for not having "minimum essential" health insurance, and new policies that cost less but do not meet the ACA's standards have been introduced.

Early retirees now have four main options for buying health insurance to fill the gap before Medicare.

COBRA. You may keep your group coverage through COBRA, the federal law that requires companies with 20 or more employees to let workers stay on their health plan for up to 18 months after they leave their job. Choosing COBRA is easy—your coverage and network of providers don't change—but it is a pricey option. You have to pay both your share and the employer's share of the premium (employers typically pay about 70% of the cost for employees). COBRA does allow you to qualify for coverage regardless of your health, but people with health issues now have more options than they did in the past.

Still, you may want to keep your insurance through COBRA, even if it costs slightly more, if your doctors and providers aren't covered under the other policies. That's especially true if you're undergoing medical treatment, or if you're about to turn 65 and need coverage for only a few months until Medicare kicks in.

Employer coverage. You may be among the shrinking group that can still get retiree health coverage from a former employer. Or if your spouse is still working, you may piggyback on that coverage—although employers are passing along more of the cost.

State exchanges. You also have the option to buy your own health insurance on your state's exchange (also called a marketplace), and you may be able to apply subsidies to reduce your premiums. (You can find links to your state's exchange at www.healthcare.gov.) The insurers on each exchange, as well as each insurer's policy details, prices and networks, vary by state.

The calculators on your state's exchange will help you determine whether you qualify

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for a subsidy. Tax credits are available only if you buy policies that are on your state's exchange. Also, you generally can't get a subsidy if you have an offer of insurance from your employer, such as retiree health coverage.

All ACA-compliant individual health insurance plans, sold on or off the exchanges, must include 10 essential health benefits, including coverage for preventive tests, hospitalization, maternity and newborn care, emergency-room care, and prescription drugs. Plans sold on the exchanges must fall into one of five categories: platinum, gold, silver, bronze or a catastrophic policy available primarily to people younger than age 30.

Each level of coverage must meet certain requirements. A platinum policy, for example, must cover 90% of average health care costs (based on a calculation for a "standard population" in your area); a gold plan must cover 80%. But that doesn't translate into a fixed set of deductibles and co-payments at each level. In general, you can expect the lowest premiums at the bronze level, but also the highest deductibles and more cost sharing (such as higher co-payments and co-insurance). High-deductible policies, whether purchased on or off the exchanges or through an employer's plan, may qualify for health savings accounts (see the box on the next page).

As you climb the metal tiers, deductibles and cost sharing are generally lower, but premiums tend to be higher. You'll pay the highest premiums (and get the most coverage) at the platinum level, but gold plans, which have slightly higher cost sharing, are more common. The premiums can vary a lot within each level, depending on each insurer's coverage specifics and network. When assessing your options, compare the premiums (after any subsidy) and out-of-pocket costs for the type of care you tend to use, and make sure your providers are included. Some insurers offer more than one option within the same level but charge less for a version with a more restrictive network.

Off the exchanges. Many companies also sell ACA-compliant policies outside of the exchanges, which could be worth considering if you don't qualify for a subsidy, or if you qualify for only a small one. Most of these policies must meet the same requirements as those on the exchanges (such as providing the 10 essential health benefits, not rejecting anyone or charging more because of their health, and charging older people no more than three times as much as young adults), but they may have different networks and other small variations that can help reduce premiums.

You can buy off-exchange policies directly from the insurers, through an agent (see www.nahu.org) or on a website such as eHealthInsurance.com. There's no downside to buying an ACA-compliant policy off the exchange if you don't qualify for a subsidy.

The federal penalty for not having insurance disappeared in 2019 (although some states have their own penalty), and new rules are expanding some types of coverage that don't meet the ACA standards. For example, insurers may offer short-term plans that last for up to 364 days and may be renewed for up to three years, if approved by the insurer. The premiums for short-term policies are usually less than they are for ACA-compliant policies, but they don't have to cover the ACA's 10 essential health benefits, and they can exclude preexisting conditions or reject you because of your health. They generally don't cover prescription drugs but may provide a drug discount card. They can also have annual or lifetime caps on coverage, such as $500,000 or $1 million. Check the limitations before choosing a short-term policy.

Remember, subsidies aren't available to people who keep their employer's coverage through COBRA or buy policies off the exchanges. Be sure to compare the cost of buying your own policy (after any subsidies) with the cost of keeping coverage through COBRA and compare the coverage and networks.

HEALTH INSURANCE SUBSIDIES

Many early retirees are likely to benefit from subsidies to help pay for their health insurance premiums, especially after they stop working and their income drops.

To qualify for the subsidies in 2019, your modified adjusted gross income must be 100% to 400% of the 2018 federal poverty level, which is $12,140 to $48,560 for an individual and $16,460 to $65,840 for a couple. And generally you can't have received an offer of insurance from your employer, including retiree coverage.

The subsidy is an advance tax credit; the money will be applied to your premiums immediately when you buy coverage on the exchanges, based on the income you've reported. The figures will be adjusted when you file your 2019 taxes. If you earn more than you projected, you may have to pay back some of the credit.

If you qualify for a subsidy, the size of your income determines the maximum amount you have to pay for a standardized level of insurance—starting at 2.08% of your income if your modified adjusted gross income is below 133% of the federal poverty level and gradually rising to 9.86% of your income if your modified AGI is 300% to 400% of the federal poverty level. (Your modified adjusted gross income, or MAGI, is your adjusted gross income plus certain deductions you add back, such as tax-exempt interest and nontaxable Social Security benefits.)

That maximum is for a "benchmark" policy, and you'll receive a tax credit to make up the difference. The benchmark policy is the second-to-lowest silver plan available in your area, and the premiums for that policy are based on location and age.

The specific subsidy will vary depending on the cost of the benchmark plan in your area. The calculator at your state's health insurance exchange should give you the numbers that apply to you. K

Tax-Free Savings in an HSA

A high-deductible plan will lower your premiums and, if you have an eligible policy with a deductible of at least $1,350 for individual coverage or $2,700 for family coverage in 2019, you can make tax-favored contributions of $3,500 for individual coverage or $7,000 for family coverage to a health savings account. (You can contribute an extra $1,000 if you're 55 or older.)

Contributions are pretax if you make them to your employer's plan through payroll deduction (or tax-deductible if you enroll in an HSA on your own), and the money grows tax-deferred. Plus, you can use HSA funds tax-free for out-of-pocket medical expenses in any year. Qualifying expenses include your health insurance deductible, co-payments for medical care and prescription drugs, and eligible expenses not covered by insurance, such as vision and dental care.

If you have enough cash on hand, you can pay current out-of-pocket medical expenses with other money and leave your HSA balance to grow—and reap the benefits of long-term tax deferral. You can't make new contributions to an HSA after you sign up for Medicare, but you can use the money tax-free for medical expenses at any age. You will owe taxes on any withdrawals you make for nonmedical expenses and, if you use HSA money for nonmedical expenses before age 65, you'll also owe a 20% penalty.

Once you're on Medicare, there are plenty of medical expenses that qualify for tax-free withdrawals—deductibles, co-payments for medical care and prescription drugs, and medical bills not covered by insurance. You can even use HSA money for Medicare Part B premiums—you simply reimburse yourself for the money that Social Security withholds from your benefits to pay for it. You can also use HSA funds for Medicare Part D and Medicare Advantage (but not medigap) premiums, or for a portion of eligible long-term-care insurance premiums.

Five Awesome Places to Retire

WE FOUND TAX-FRIENDLY PLACES WITH MODERATE LIVING COSTS, FIRST-CLASS HEALTH CARE AND PLENTY TO SEE AND DO.

Retirees who want to move when they're ready to quit their day jobs face a conundrum: They'd like to live in a slower-paced, budget-friendly small or midsize city, but they don't want to travel for an hour or two to get first-class health care.

These cities solve the problem. All have at least one hospital that has received four or five stars—the highest ratings—from the Centers for Medicare and Medicaid Services. Most are located in states that exempt retirement income from state taxes (or have low tax rates) and offer homes that are affordable, whether you're looking to buy or rent. Major airports aren't far away. And although some of our cities are small, they offer a wealth of cultural amenities and ways to commune with nature.

MESA, ARIZ.

Population: 496,400
What $300,000 will buy: 3-bedroom, 2-bath single-level house with a pool, two-car garage and mountain views
Best place to exercise: Superstition Mountains
4-star hospital: Banner Heart Hospital

Arizona is known for its sunshine and golf courses, and Mesa has plenty of both. But the city has much more to attract retirees, such as its proximity to top-rated hospitals, a cost of living that's lower than the national average and a range of activities for lovers of nature, sports and the arts.

Golfers, for instance, can choose from more than 200 courses in the metro area. And the weather is favorable most of the year for many other outdoor activities, such as camping, biking, fishing at nearby Saguaro and Canyon lakes, and hiking.

Retirees Bob White, 68, and Marquetta White, 67, hike the mountain trails at least weekly. "That's what's nice about Arizona. It's really flat except when you get to the mountains," Marquetta says. "Then you can see forever."

Those who prefer spectator sports won't be disappointed. During spring training every February and March, baseball fans can check out the prospects of the Chicago Cubs at Mesa's Sloan Park and the Oakland Athletics at Hohokam Stadium. Mesa's downtown is anchored by the Mesa Arts Center, with performance theaters, a contemporary art museum and plenty of art classes.

You can drive through Mesa and quickly find yourself in Phoenix or Scottsdale without noticing you've crossed city limits. Locals say they like the ease with which

COURTESY CITY OF MESA

Mesa, Ariz.

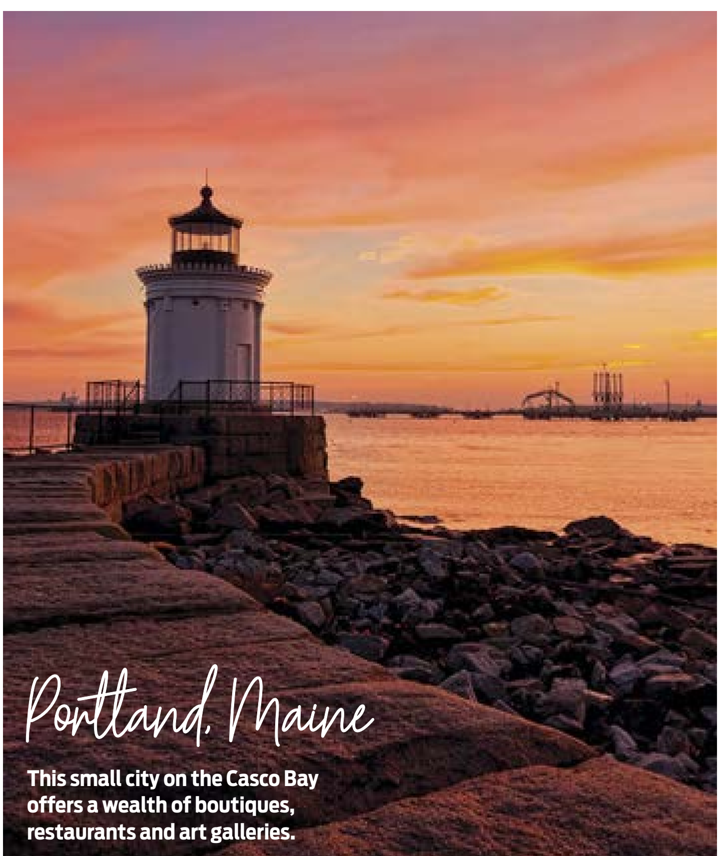
Nearby mountains and lakes are popular with bikers and hikers, and it's an oasis for art lovers, too.

they can get to other cities' attractions, such as high-end shopping in Scottsdale to the north or college sports at Arizona State University in Tempe to the west.

Mesa has many 55-plus communities, says real estate agent Irene Hammond. One of the nation's fastest-growing communities—for all ages—is Eastmark in southeast Mesa. One section, called Encore at Eastmark, is designed for adults age 55 and older, with the base price of single-family homes ranging from about $270,000 to $415,000. Retirees seeking to rent can find two-bedroom condos near downtown Mesa for $1,100 to $3,000 a month.

Area residents have many health care options, including Mesa's Banner Heart Hospital, a 111-bed heart facility.

Kiplinger gives Arizona a mixed grade on taxes for retirees. Social Security benefits aren't taxed, but withdrawals from 401(k)s and IRAs are—although at a low rate. **EILEEN AMBROSE**



This small city on the Casco Bay offers a wealth of boutiques, restaurants and art galleries.

PORTLAND, MAINE

Population: 66,900
What $300,000 will buy: 2-bedroom, 1 bath, 1,143-square-foot condo
Best place to exercise: Back Cove Trail
5-star hospitals: Maine Medical Center, Mercy Hospital

Located on a small peninsula in the Casco Bay, Portland offers city amenities with a small-town feel, says Harold Pachios, an 82-year-old lawyer who has lived in Portland most of his life. And while he can see the city changing right outside his office window, with new construction and cranes clouding his view, he says Portland is still safe and easy to get around.

The Old Port area offers a blend of history and practicality, with a mixture of boutiques and restaurants on cobblestone streets that run down to a working waterfront. The Portland Museum of Art and Maine College of Art anchor the arts district, along with other galleries that are within walking distance.

Maine Medical Center, which belongs to the MaineHealth network, boasts more than 600 beds. Mercy Hospital has 230 beds in three locations. At Mercy's State Street and Fore River locations, all rooms are private. Services and specialties at both hospitals range from comprehensive cancer treatment to cardiac care to orthopedics.

Karen Jones, past president of the Greater Portland Board of Realtors, says retirees who want to live close to downtown can expect to pay $600,000 or more for a newer luxury condo. Units in older buildings range from $350,000 to $500,000. If you'd rather rent, two-bedroom condos close to downtown go for about $2,600 a month.

Maine taxes are a mixed bag for retirees. Residents can deduct up to $10,000 in pension and retirement-account income from state taxes. But singles with taxable income of more than $50,750 and couples with income exceeding $101,550 pay the top tax rate of 7.15%.

Portland winters can be harsh, but for retirees seeking a break from the snow, Portland International Jetport is 15 minutes from downtown. **RIVAN STINSON**

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WILLIAMSBURG, VA.

Population: 15,000
What $300,000 will buy: 3-bedroom, 2.5-bath townhome
Best place to exercise: Virginia Capital Trail
5-star hospital: Sentara Williamsburg Regional Medical Center

Mention Williamsburg and most people think of Colonial Williamsburg, where actors in period garb depict life in 18th-century Virginia. But Williamsburg is more than tricorn hats. The city of about 15,000 offers the ease of small-town living and, as home to William & Mary, the cultural activities of a college town. For a quick big-city fix or change of scenery, residents are only about an hour's drive from Virginia Beach or Richmond, the state capital, and they're about three hours from North Carolina's Outer Banks.

The city is dominated by Colonial Williamsburg and William & Mary, the nation's second-oldest university, whose campus features a broad array of towering trees, from oaks to magnolias.

The university offers many entertainment and cultural options. Those age 60 and older can audit classes free. Art lovers can catch an exhibit at the Muscarelle Museum of Art or a performance by the theater and dance department.

You can take in free summer concerts weekly on the lawn outside a Colonial Williamsburg museum, or attend an arts-and-music festival on the second Sunday of most months along Prince George Street downtown. Merchants Square, nestled between the university and Colonial Williamsburg, is ideal for people-watching while you sit at one of the outdoor restaurants.

For activities just outside the city, drive the 23-mile tree-lined Colonial Parkway, which connects Williamsburg and the historic cities of Jamestown and Yorktown. For exercise, hike one of the many trails or ride a bike along the scenic Capital Trail, a pedestrian-and-bike trail connecting Jamestown and Richmond.

Many retirees settle in one of three major amenity-filled golf course communities—Ford's Colony, Governor's Land or Kingsmill Resort, all in adjacent James City County, says Kimber Smith, chief operations officer with Berkshire Hathaway Towne Realty. Single-family detached homes start at about $400,000, but some houses on the James River in Kingsmill and Governor's Land can run $1 million to $3 million or even higher, Smith says. Retirees can also find condos and townhouses—including in the New Town development, just outside the city limits—ranging from about $250,000 to $400,000. Two- and three-bedroom rentals run from $1,200 to $2,500 a month.

Virginia is tax-friendly for retirees. It doesn't tax Social Security benefits, and residents 65 and older can deduct up to $12,000 per person in income. **E.A.**

LEXINGTON, KY.

Population: 322,000
What $300,000 will buy: 1-bedroom, 1.5-bath, 984-square-foot penthouse condo with a view of downtown
Best place to exercise: Raven Run Nature Sanctuary
4-star hospital: Baptist Health Lexington

Lexington is home to the University of Kentucky (where the Wildcats play) and Keeneland Race Track (where you can see thoroughbred horse racing). The city, in the heart of Bluegrass Country, is surrounded by horse farms. A visit to the Kentucky Horse Park ($20) gets you access to the International Museum of the Horse as well as American Saddlebred Museum. You'll find locally owned boutiques at The Shops at Lexington Center, in the heart of the city. Nearby is Rupp Arena, where the Wildcats routinely demolish their opponents.

Outdoor enthusiasts can get their fix at Jacobson Park, a 216-acre park in east Lexington, which has fishing and boat rentals. Another option south of the city is Raven Run Nature Sanctuary, a 734-acre park along the Kentucky River that has more than 10 miles of hiking trails.

Baptist Health Lexington, a few miles from the city center, is a 391-bed facility with specialists in heart and stroke care, cancer, orthopedics and rehabilitation.

The median home price in Lexington is about $169,000, according to the National Association of Realtors. If you're looking

in the heart of Bluegrass Country, this city has a lively downtown filled with restaurants and boutiques.

to rent rather than buy, $995 per month will get you a 1,200-square-foot downtown condo with three bedrooms and one bath.

Kentucky is one of Kiplinger's top-10 tax-friendly states for retirees. It exempts Social Security benefits from state income taxes, plus up to $31,110 per person in retirement income.

Blue Grass Airport is five miles west of the city and offers direct flights to a slew of cities on the East Coast and in the Midwest. **THOMAS BLANTON**

COLUMBIA, S.C.

Population: 133,100
What $300,000 will buy: 3-bedroom, 3-bath, single-family home
Best place to exercise: Riverfront Park
4-star hospitals: Providence Health, Palmetto Health Baptist Parkridge

While it's known for its old-fashioned southern hospitality, Columbia is in the midst of an economic and cultural renaissance. Couple that with a below-average cost of living, affordable housing and low state taxes, and it's no surprise that a growing number of retirees from the Northeast and Midwest are skipping the move farther south and choosing to live here.

Home to the state capital and the University of South Carolina, Columbia offers a little bit of everything, including a ballet, a symphony orchestra and the Columbia Museum of Art. Sports fans can cheer USC's Gamecocks football team at Williams-Brice Stadium, or watch the minor-league Fireflies play at the Spirit Communications ballpark.

Housing options range from homes near Lake Murray in West Columbia, where a four-bedroom, 2,400-square-foot house goes for about $260,000, to midrise condos in the trendy Vista quarter downtown, where a two-bedroom unit in a luxury building costs about $270,000. For renters, two-bedroom townhouses and condos are available for about $1,050 to $2,000 a month.

South Carolina is tax-friendly for retirees. Social Security benefits aren't taxed, and the state provides a generous deduction for other types of retirement income. **MARC A. WOJNO**

COURTESY VISITLEX

A Guide for Snowbirds

IF YOU'RE PLANNING TO HEAD SOUTH TO ESCAPE WINTER, USE THESE STRATEGIES TO DO IT RIGHT.

PATRICIA MERTZ ESSWEIN

Pat and Pete Engel of Glendale, N.Y., are seasoned snowbirds, having spent every winter since 1995 in Florida. "After two bad blizzards within two years, I realized I never wanted to see another snowflake after we retired," says Pat, 80. Each January, they secure their home in New York and head to Florida until April. Pete, 82, plays golf, and the couple take advantage of warm-weather activities with snowbird friends from all over the U.S. and Canada.

Many snowbirds follow family and friends south, while others experiment until they find the right location and community. Some rent the same place for years; others buy a second home that may become their primary residence in retirement. Whatever your migratory path, successful snowbirding takes preparation and smart planning.

RESERVE A RENTAL—EARLY

In most places, January through March or April is peak snowbird season. Migrators often book the same place for the coming year before they leave in the spring, and others begin booking their rental as early as August. Early birds get the biggest blocks of time and the most-desirable properties.

At Vacasa.com, which lists and manages vacation rentals, snowbirds often book properties in Alabama, Arizona, Florida and Texas. Shaun Greer, senior director of real estate, says snowbird rentals tend to be budget-friendlier along the Gulf Coast of Texas, Alabama and northwestern Florida, where winter is a bit chillier than in the central and southern regions of Arizona or Florida.

To expand your search, contact a locally based vacation-rental property manager or a real estate agent, who can help you match communities with your budget and interests, and search sites such as Airbnb.com, Booking.com and HomeAway.com.

In most cases, homes are furnished. Before you sign a rental agreement, find out whether cable and internet service are provided. Do you get an allowance for utilities? What pets are allowed, if any? Is any cleaning included? Will you have free access to all amenities?

MOTHBALL YOUR HOME

The Engels have preparation for their departure down to a science. It takes them about two days as they work through Pete's preflight checklist. You'll develop your own, but here are points to consider.

Prevent water damage. To keep your homeowners coverage for water damage in force while you're away, most insurers require you either to maintain adequate heat (55 to 65 degrees) or to shut off the water and drain the pipes, says Ana Robic, with Chubb Personal Risk Services. (Call your insurer to see what it requires.)

If you don't shut off the water, you could have a plumber install an automatic water shut-off valve, which will detect an abnormal rate of flow and shut off the water before much damage can occur. The Water Hero Leak Detection and Automatic Water Shut-Off system, for example, starts at $649 plus an hour or so of labor (www.waterheroinc.com). You can monitor it from your smartphone.

Unplug electronics and appliances. You'll prevent "vampire" usage (electricity drained when a device is turned off but still plugged in) and avoid damage from power surges. If you want to unplug the fridge, empty it, clean it and prop open the door to avoid mold. Turn down the water heater to low.

Suspend services. Put your newspaper on a vacation hold. Cable and internet providers generally allow you to suspend service from one to nine months during the year free or for a small monthly fee. You needn't turn in equipment, and your phone number and e-mail address will stay the same. On the date you set, service will be automatically restored without a service visit.

Have someone keep an eye on your home. If you aren't going to have someone regularly visit your home, you could hire a home-watch service, which will periodically inspect your house and give you

PUSHART

KIPTIP

Across the South and Southwest, home prices have soared and supply is limited. Buyers need to move quickly with offers. Sellers prefer full-price, cash offers that close swiftly. If you need a mortgage, get fully preapproved with a lender.

updates. The price varies with the location and size of your home, but generally starts at about $35 per visit. To find one, visit www.nationalhomewatchassociation.org.

For an extra layer of security, you can install a network of smart components (including door locks, thermostats, moisture and motion sensors, cameras, and alarms) that you can control from your smartphone. Or you can hire a monitored smart-home system, such as ADT's Pulse (starting at $99 for installation plus $53 per month for monitoring), which may earn you a premium discount from your home insurer.

PLAN FOR HEALTH CARE

Insurer United Healthcare offers these tips for snowbirds: Discuss your health plan with your doctors for any care you may need while you're away. Make sure your prescriptions are current and, if possible, written for 90 days. Double-check with your insurer that you can refill your prescriptions at a pharmacy wherever you are or that you can mail-order them with delivery to your seasonal address.

Traditional Medicare covers care from participating providers throughout the U.S. (search for doctors at www.medicare.gov/physiciancompare). With a Medicare Advantage HMO plan, you're limited to care from in-network providers within specific regions, except in emergencies. A Medicare Advantage PPO usually allows you to go out of network, but you'll bear more of the cost-sharing. If you decide to return to the same place annually, consider whether you need to change your health plan.

CONTACT FINANCIAL INSTITUTIONS

Mobile banking and online or automatic bill pay make it easy to stay on top of finances while away. To make sure your bank or credit card issuer won't decline use of your debit or credit card when you're out of state, call or go online to file a travel notification (American Express and Capital One no longer require one).

Check your car insurance. Depending on how long you stay, you may have to register your car in your temporary state and insure it to the state's minimums of liability coverage. If you don't and you're involved in an accident, you could face penalties or your insurer could refuse to pay your claim. State requirements for liability coverage are modest, and your coverage should already exceed them. Ask your insurer what's required where you're going.

DON'T RUSH TO BUY A HOME

Some snowbirds decide to buy rather than rent but only after they've found the ideal spot to winter. The best time for snowbirds to buy is usually in the late spring, when much of the competition has gone home.

The farther from the beach, the less expensive the homes and the less likely you'll be in a Federal Emergency Management Agency flood zone, which will reduce the cost of flood insurance from thousands of dollars a year to just a few hundred, says Dawn Rae, a buyer's agent in Tampa.

TRIM YOUR TAX BILL

With the new tax law limiting deductions on state and local taxes, more retirees are moving to lower-tax states, or if they already have a second home in one, they're establishing residency there, says Terry LaBant, of RMB Capital Management, in Chicago. (To compare state taxes, go to kiplinger.com/links/retireetaxmap.)

To prove that the lower-tax state is your permanent home, you must show that you live there for at least half the year, or 183 days. The days needn't be consecutive. As proof of residency, keep a diary or log. You'll also need to get a new driver's license or other state ID and register to vote.

PLAN FOR THE WORST

Whenever you live somewhere for an extended time, it's smart to get a durable power of attorney, a living will and a durable health care power of attorney written for the new state. Even with legal reciprocity between the states, the people receiving those documents at a medical or financial institution may not recognize the form used by the other state, which will slow things down, says LaBant. K

Age-Friendly **Remodeling**

THESE STYLISH UPDATES WILL LET YOU STAY IN YOUR HOME LONGER.

BY PATRICIA MERTZ ESSWEIN

Your kids are launched and, suddenly, you seem to have more disposable income. This could be a good time to tackle the remodeling projects you've been putting off. And while you're updating your house for style, consider adapting it so you can age in place comfortably.

Studies show that most homeowners age 50 and older say they want to remain in their house as they age, but most U.S. homes weren't built to accommodate older people's special needs. For example, only one-third have basic accessibility features, such as a no-step entry and a bedroom and full bath on the entry level, according to a report by the Joint Center for Housing Studies at Harvard University.

Dan Bawden, owner of Legal Eagle Contractors, in Houston, is a Certified Aging-in-Place Specialist. He says that many of his baby boomer clients, and even some Gen Xers, are asking about remodeling features that will make their homes more user-friendly and livable for the long run.

In the accompanying illustrations, we've highlighted many potential improvements, from small to large.

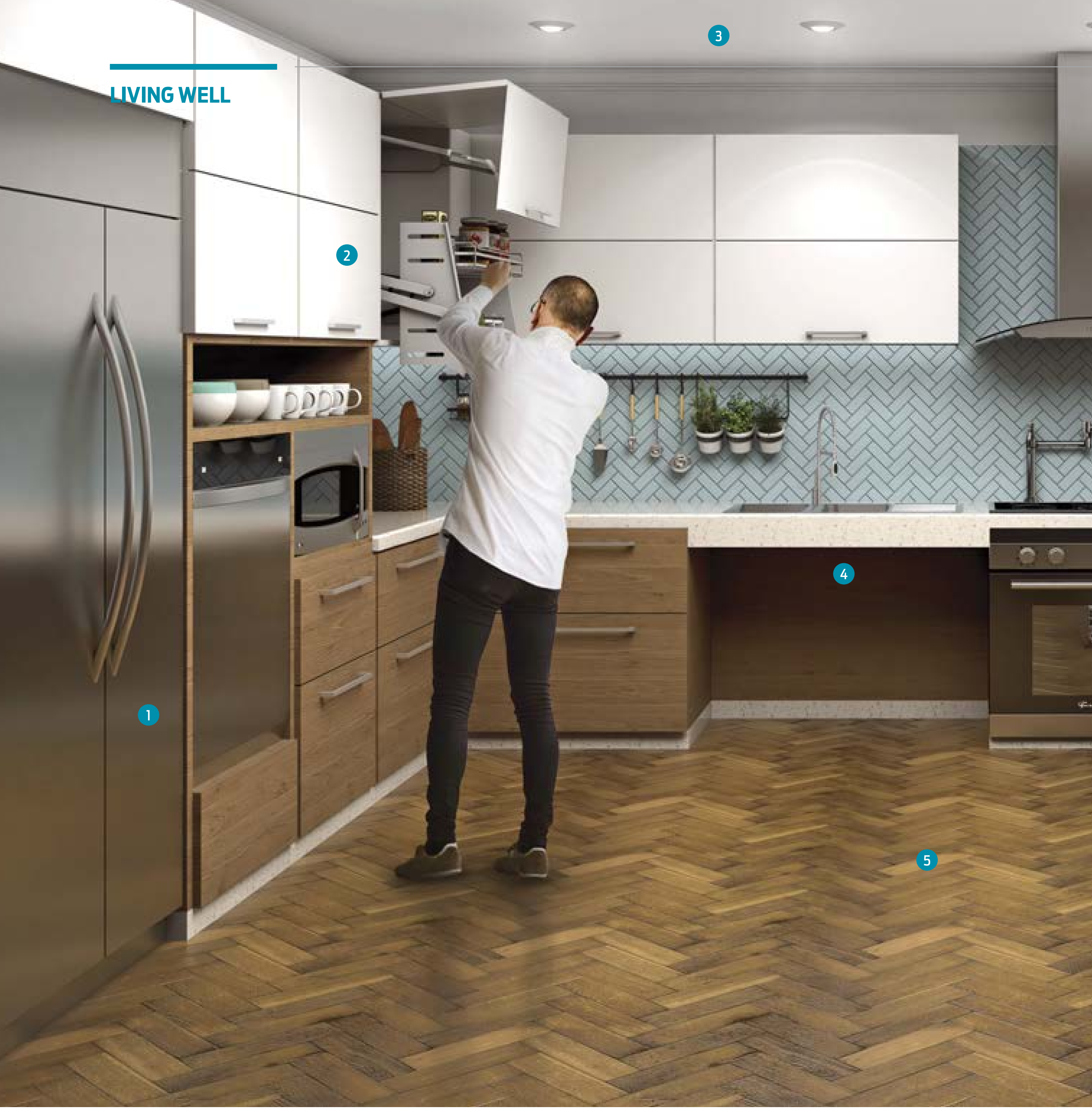
Take inventory. Walk around your home and note the things that are already difficult for you to navigate. If you're in good health and it's hard to imagine the loss of mobility, think of returning home after surgery on crutches or with a walker or in a wheelchair. Can you get into the house? Can you access the bathroom? In many cases, the answer will be no.

Bawden's clients often worry that the finished product will look institutional. "But we can do gorgeous projects in which the modifications are invisible," he says. For example, he likes products from Invisiacollection.com, a maker of grab bars that don't look like grab bars and may serve double-duty as toilet-paper holders, soap dishes or shelves.

One of the most popular projects is to install a curbless shower, even if it means removing the home's only bathtub. That has long been a no-no because it could reduce the house's resale value. But, Bawden says, that's becoming less of a concern for homeowners today.

Installing maintenance-free materials is also important, says Bawden. For example, quartz countertops in the kitchen and bathroom are super-hard, scratch and stain resistant, and never need sealing, unlike natural stone. Quartz is also less expensive than it used to be. Luxury vinyl plank (LVP) flooring is durable, waterproof and comfortable underfoot.

What will it cost? For estimated project costs, the annual Cost Vs. Value Report from *Remodeling* magazine is a good resource. In 2019, the national average cost for a minor kitchen remodel is $22,507 and $131,510 for an upscale project. The average cost for a bathroom remodel is $33,374 for a midrange project and $64,743 for an upscale remodel. If you want to add a first-floor master bedroom, the national average cost is $130,986 for a midrange job and $271,470 for an upscale one.



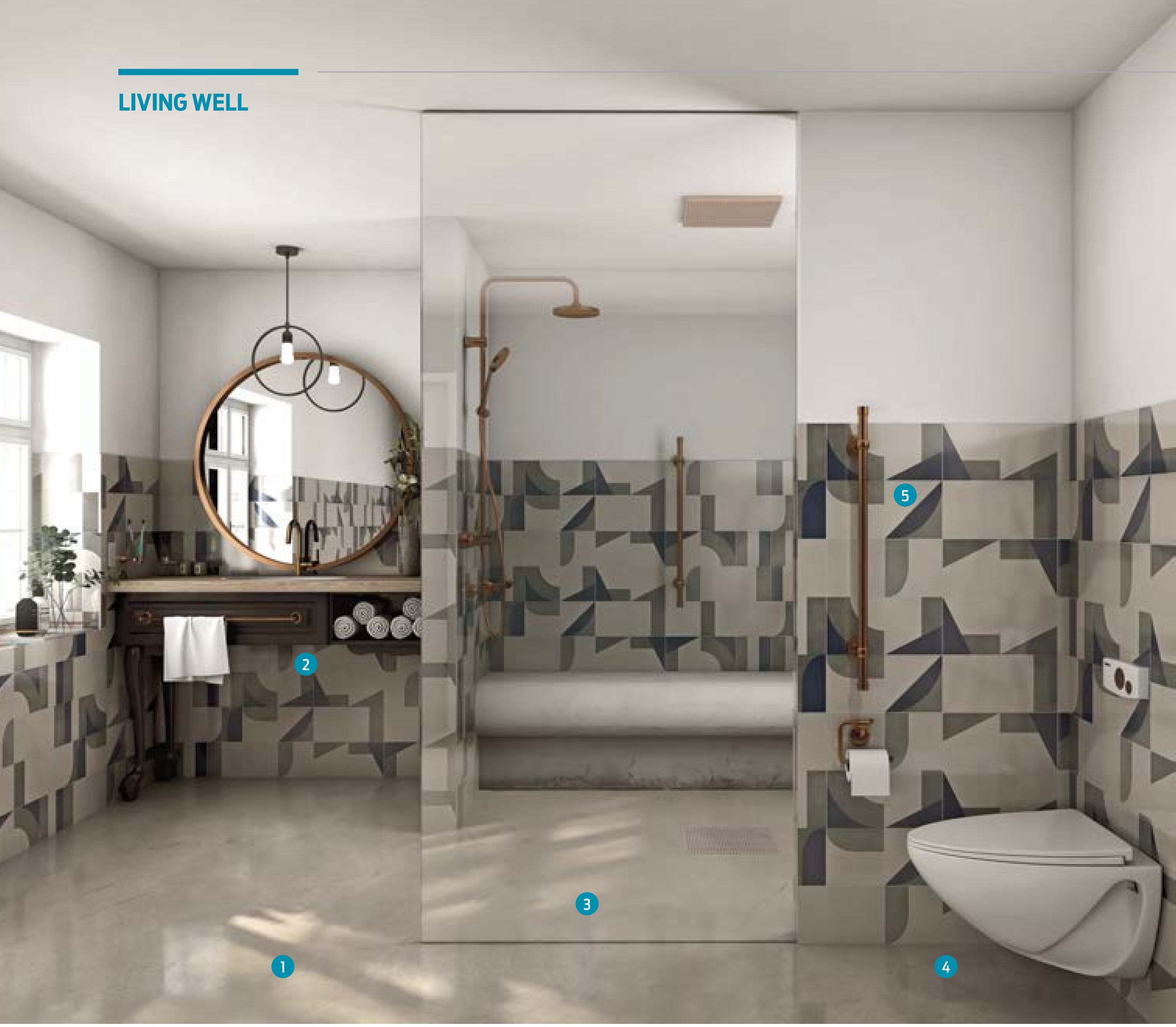
LW ARCHVIZ

However, if you want to widen a bathroom door (bathroom and closet doors are often narrower and less accessible than other doors), put in grab bars and add a curbless shower, that would typically cost about $11,800 to $14,000 (prices vary by region).

If you're adding on to your home or building a multistory house, you could prepare for an elevator by stacking 6-foot-square closets. That way, when you're ready, the contractor can just remove the floor between the closets.

How will you pay for it? For more costly projects, you could take out a home-equity line of credit, from which you could borrow money as needed. Or, if you or your spouse is at least age 62 and you have considerable equity in your home, you could take out a reverse mortgage with an up-front lump-sum payout or a line of credit. With a reverse mortgage, you must use some of the proceeds to pay off any remaining mortgage balance, but you'll never have to make another monthly mortgage or loan payment.

1 User-friendly appliances. Select easy-access models: A side-by-side-door refrigerator ($900 to $3,800), a stove with controls near the front ($470 to $3,500), a raised dishwasher ($680 to $1,300) and a microwave at countertop level ($180 to $1,600). **2 Pull-down shelving units.** Retrofit upper cabinets to avoid lifting heavy items (starting at $525 per unit). **3 LED lighting.** Add lighting overhead ($220 to $300 per recessed fixture, installed) and under cabinets ($360 to $460 per strip, installed). **4 Sink faucet.** Install lever-handled model that's easier to grasp, or go with a touchless version ($350 to $570, installed). **5 Non-slip flooring.** Install flooring to prevent falls ($4 to $18 per square foot, installed). **6 Roll-out shelves.** Replace fixed shelves to avoid bending ($25 to $100 apiece). **7 D-shaped pulls.** Add cabinet handles that are easier to grasp than knobs (from $1.40 apiece). **8 Workspaces.** Vary the heights of workspaces, or create space to work while seated (custom cost). **9 Lever-style handsets.** Replace all household doorknobs ($8 to $130 apiece).



1 Layout. Remodel a bathroom to create a 5-foot turning radius to accommodate a wheelchair. **2 Sink vanity.** Choose one with room to accommodate a chair or wheelchair ($560 to $1,500). **3 Curbless shower.** Replace a tub or step-in shower. Include a bench seat, a hand-held shower that adjusts for height and a shower-control valve near the entrance for better access ($10,000 to $12,000). **4 Comfort-height toilet.** Add a toilet whose seat is higher off the floor than standard models ($360 to $1,400, installed). A wall-mounted toilet offers adjustable height—plus, because the water tank is in the wall, it frees up floor space ($1,400 to $3,700). **5 Grab bars.** Place near the toilet and inside the shower ($90 to $440, installed).

The debt will be repaid after you leave the home permanently and the house is sold. For more information on reverse mortgages, visit the websites of the Consumer Financial Protection Bureau (www.cfpb.gov) and the National Reverse Mortgage Lenders Association (www.reversemortgage.org).

Where to get help. For help designing and constructing larger projects, look for a Certified Aging-in-Place Specialist who has completed a program developed by the National Association of Home Builders with AARP (go to www.nahb.org and search for "CAPS Directory"). You can also find a CAPS-certified contractor through the National Association of the Remodeling Industry (www.nari.org) and the national Kitchen and Bath Association (www.nkba.org). K

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TAKEAWAY

TRAVEL IN STYLE FOR LESS

We found plenty of backdoor, budget-friendly strategies for indulging yourself on vacation.
By MIRIAM CROSS

POUNCE ON A FLASH SALE. The free flash-sale site Secret Escapes (https://us.secretescapes.com) sends e-mails to its members flagging hotel, cruise and tour deals, often for up to 70% off.

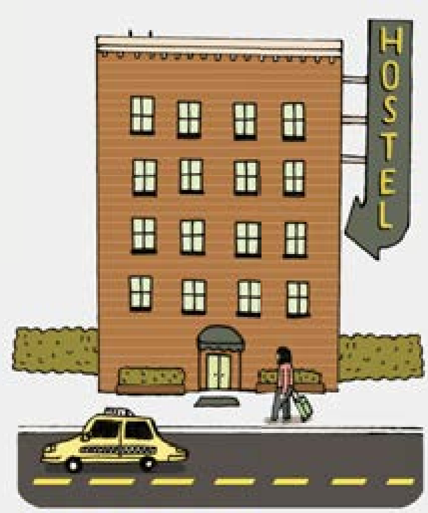
UPGRADE YOUR FLIGHT. Premium economy—typically available on long flights—offers roomier seats, better food and priority boarding for a cost of 10% to 85% more than regular coach seats.

SKIMP ON THE ROOM. At an all-inclusive resort, don't waste money on an upscale room if you aren't going to spend much time there. Every guest gets access to the facilities.

BOOK THE BEST SHIPS AT A BARGAIN RATE. When cruise ships "reposition" from the Caribbean to the Mediterranean in the spring, or vice versa in the fall, they take passengers along at a reduced rate.

SHARE A RITZY RENTAL. Splitting a luxury residence with friends and family can be far cheaper on a per-room basis than dividing your group among luxury or even midrange hotel rooms.

DON'T COUNT OUT A HOSTEL. Many hostels offer private rooms with en suite bathrooms that can rival a hotel's—at a good price for a prime location. Check reviews at www.hostelworld.com.



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