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For Seniors***

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DUMMIES®

**by Eric Tyson
and Bob Carlson**



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About the Authors

Eric Tyson is an internationally acclaimed and best-selling personal finance book author, syndicated columnist, and speaker. He has worked with and taught people from all financial situations, so he knows the financial concerns and questions of real folks just like you. Despite being handicapped by an MBA from the Stanford Graduate School of Business and a BS in Economics and Biology from Yale University, Eric remains a master of “keeping it simple.”

After toiling away for a number of years as a management consultant to Fortune 500 financial-service firms, Eric took his inside knowledge of the banking, investment, and insurance industries and committed himself to making personal financial management accessible to all.

Today, Eric is an accomplished personal finance writer. His “Investor’s Guide” syndicated column, distributed by King Features, is read by millions nationally. He is the author of five national best-selling books, including *Personal Finance For Dummies*, *Investing For Dummies*, and *Home Buying For Dummies* (coauthor), among others, which are all published by Wiley Publishing. *Personal Finance For Dummies* was awarded the Benjamin Franklin Award for best business book of the year.

Eric’s work has been featured and quoted in hundreds of publications, including *Newsweek*, *The Wall Street Journal*, *Los Angeles Times*, *Chicago Tribune*, *Forbes* magazine, *Kiplinger’s Personal Finance* magazine, *Parenting* magazine, *Money* magazine, *Family Money* magazine, and *Bottom Line/Personal* magazine; on NBC’s *Today Show*, ABC, CNBC, PBS’s *Nightly Business Report*, CNN, and FOX-TV; and on CBS national radio, NPR’s *Sound Money*, Bloomberg Business Radio, and Business Radio Network.

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Bob received his JD and an MS (Accounting) from the University of Virginia, received his BS (Financial Management) from Clemson University, and passed the CPA Exam. He also is an instrument-rated private pilot.

Dedication

Eric: This book is hereby and irrevocably dedicated to my family and friends, as well as to my counseling clients and customers, who ultimately have taught me everything that I know about how to explain financial terms and strategies so that all of us may benefit.

Bob: To the many readers of my newsletter, *Retirement Watch*. They are an intelligent, educated, hardworking, and practical bunch. Over the years they shared with me their problems, issues, and insights and inspired many of the ideas and recommendations in the newsletter. In many ways, we've worked together to develop the best ideas for our retirement plans.

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And a heartfelt thanks to all the people on the front lines and behind the scenes at Wiley who helped to make this book and my others a success. A big round of applause, please, for Chad Sievers as project editor and Jessica Smith as outstanding copy editor. Special thanks to Mike Baker. Thanks also to the Composition, Graphics, Proofreading, and Indexing staff for their great efforts in producing this book.

And, thanks to you, dear reader, for buying our books.

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Introduction

*W*e're all getting older, together.

Aging presents opportunities for increased wisdom and broader perspective as well as some increased challenges. One of those challenges that doesn't get much discussion has to do with finances. The new, and sometimes more complex, financial decisions that confront folks in their later working years and then in retirement can be tough to work through.

For example, consider the types of questions we, your humble authors, have been asked from folks in our advisory businesses:

- ✔ Can we afford to retire? How much can we comfortably spend per year given our assets?
- ✔ My employer is offering me pension options. How do I choose among them?
- ✔ I just left my employer (by choice or through layoff) and have some money in a retirement account. What should I do with it?
- ✔ How should I manage my investments now and in the years ahead?
- ✔ When should I begin collecting Social Security benefits?
- ✔ What's the process for withdrawing money from my retirement accounts, and how can I minimize my tax hit from doing this?
- ✔ Should I buy an annuity? If so, what type?
- ✔ Are reverse mortgages a good idea?
- ✔ What types of additional medical insurance — long-term care insurance, Medicare supplement, and so on — do I need pre- and post-retirement?

- ✔ An agent is telling me to buy more and different life insurance. How much do I need and what type of life insurance should I buy?
- ✔ Do I need a will?
- ✔ Do I need an estate plan, and what should I do to protect my spouse, children, or significant other?

We wrote this book to answer these questions and many more that face you as you age and grapple with your finances during your senior years. We hope to not only answer your questions but to also make you aware of important issues you may not be aware of so you have plenty of time to consider them and make decisions that enhance your financial independence.

About This Book

As you can see from the title of this book, we use the term *seniors* to identify the intended audience. Book titles tend to be short and therefore have the potential to be misunderstood and misinterpreted. Please allow us to explain here what we mean by *Personal Finance For Seniors For Dummies*.

Everyone needs to make financial decisions. Whether you're rich, middle class, or poor, 48 or 84 years old, retired or still working two jobs, money passes through your hands every day. You spend money, need insurance, pay for housing, and probably have investments. Even if you wanted to, you couldn't avoid money. As with your health, it's better to do the best you can with your money (without becoming obsessed) to maximize your options and minimize how long and hard you have to keep working for it.

No matter your situation, we're excellently positioned to give you sound financial advice on the range of issues presented in this book. We each have decades of professional experience in the financial services industry. And, we have extensive training and background to provide expert personal financial and retirement advice.

Eric started as a management consultant in the financial services industry and then worked as a personal financial counselor. Now he's an author and the proprietor of www.erictyson.com. Eric is a trained economist who graduated with honors in Economics from Yale University.

Bob is Chairman of the Board of Trustees of the Fairfax County Employees' Retirement System, which has more than \$2.3 billion in assets. He has served on the board since 1992. He's also the editor of the monthly newsletter, *Retirement Watch*. Bob received his JD and an MS in Accounting from the University of Virginia and received his BS in Financial Management from Clemson University and passed the CPA Exam.

We both communicate in plain English with our readers, operate free of conflicts of interest, and interact with people like you with real financial problems that need solutions.

Conventions Used in This Book

To help you navigate the waters of this book, here are the conventions we've used throughout:

- ✔ We use *italics* for emphasis and to highlight new words or terms that we define.
- ✔ We use **boldface** text to indicate the action part of numbered steps and to highlight key words or phrases in bulleted lists.
- ✔ We put all Web addresses in `monofont` for easy identification.
- ✔ We refer to the decade from 2000 to 2009 as the *2000s*. We just wanted to avoid any confusion in case you were thinking of the year 2095.

When this book was printed, some Web addresses may have needed to break across two lines of text. If that happened, rest assured that we haven't put in any extra characters (such as hyphens) to indicate the break. So, when using one of these Web addresses, just type in exactly what you see in this book, pretending as though the line break doesn't exist.

What You're Not to Read

We've written this book so you can find information easily and effortlessly understand what you find. And although we'd like to believe that you want to pore over every last word between the two yellow and black covers, we make it easy for you to identify "skippable" material. This information is the stuff that, although interesting, isn't essential for you to know:

- ✔ **Text in sidebars:** The sidebars are the shaded boxes that appear here and there. They include helpful information and observations but aren't necessary reading.
- ✔ **Anything with a Technical Stuff icon attached:** This information is interesting but not critical to your understanding of the topic at hand.

Foolish Assumptions

When writing this book, we made some assumptions about you, Dear Reader:

- ✔ You're age 50 or older and are approaching or are in retirement.
- ✔ You're still in the workforce and have no plans to retire, which is fine and compatible with our approach in this book too.
- ✔ You want expert advice about important financial topics — such as getting out of high-interest consumer debt, planning for major goals, or investing — and you quickly want easy-to-understand answers.
- ✔ You want a crash course in personal finance and are looking for a book you can read to help solidify major financial concepts and begin thinking about your finances in a more comprehensive way.
- ✔ You're just tired of picking up scattered piles of bills, receipts, and junk mail every time the kids chase the cat around the den, so you plan to use this book as a paperweight.

Throughout this book we offer many resources including Web sites and online tools to help you. For those of you who aren't computer savvy, rest assured that we also provide plenty of alternative off-line resources and assistance.

How This Book Is Organized

Personal Finance For Seniors For Dummies is organized into five parts, and each part covers a major topic area. Within each part we include multiple chapters; each one delves into a particular issue in detail. Here's an overview of what you can find in each part.

Part I: Working toward Retirement

You'll make better financial decisions and have more attractive options in your golden years if you think ahead and plan in advance. Procrastination creates more long-term stress and problems. So in this part, we discuss the importance of balance in your life and keeping finances and money in perspective. While you're still working, you also need to protect your employment income, so this part addresses that vital issue too.

This part also discusses the many important financial (and non-financial) preparations for a successful and happy retirement. Even if you plan on working for many years to come (or even for the rest of your life), you should have a financial plan in place. Furthermore, a major issue that just about everyone needs to address is how to invest your money for growth, income, and safety as you approach retirement and hit your retirement years. The final chapter in this part deals with understanding the many complicated and conflicting rules governing retirement accounts. In addition, as you approach your retirement, evaluating and controlling your spending takes on increasing importance.

Part II: Making Money Decisions in Retirement

After you're retired (and even if you're still working in your golden years), you have myriad financial issues to tackle. The first chapter in this part deals with why your annual expenses and budget are so important and how to best manage them. Next we discuss how to handle retirement account distributions so you have enough to live on now and in the years ahead and so you can minimize the government's tax take. We also tackle housing issues, including relocation, trading down, second homes, reverse mortgages, retirement communities, and more. Finally, we cover insurance issues such as determining whether you need life insurance and long-term care insurance.

Part III: Dealing with Government Programs

Whether you're the independent sort or not, you're bound to encounter government programs requiring some decisions and forms. So in this part, we discuss the major programs. For example, Social Security is a big kahuna that provides retirement income and some insurance protections. This part also discusses the details of the retiree health benefits provided at the federal level by Medicare and at the state level by Medicaid.

Part IV: Estate Planning: It's More than Just Dead People and Lawyers

Death and taxes are certain and unfortunately come together at one's passing. These and other reasons drive the importance of planning your estate no matter how large or modest it may be. In this part, we cover the basics of estate planning — we explain