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WISERWoman

A QUARTERLY NEWSLETTER FROM THE WOMEN'S INSTITUTE FOR A SECURE RETIREMENT

Are You On Track to a Secure Retirement?

Like many Americans, you may be wondering how much money you will need when you are ready to retire and if you are saving enough to meet your goals. The answers depend on your individual circumstances, but here are a few key things to consider.

First, you need to know how much you can expect from Social Security, pensions, annuities or other retirement vehicles. This will give you an idea of retirement income that is already in place. First, sit down and make a list of all of your sources of retirement income, and estimate what the monthly benefit will be. Include Social Security, any pensions from private or government employment, and IRA and 401(k) retirement savings plans.

The Social Security Administration sends every adult over the age of 25 a statement with their projected Social Security benefits. Contact the plan administrator of any pension plan you have participated in to determine how much it will be. Look at your total IRA and 401(k) savings and estimate how much monthly income you can withdraw from savings. (See box on page 4.) Also, if you are planning to work part-time, estimate how much you can earn monthly and the length of time you predict you will work.

For each source of retirement income, ask yourself three important questions:

- **Can you count on getting the income for life?**
- **Will the income keep up with inflation?**
- **Can some or all continue to your surviving spouse?**

For example, Social Security pays benefits for life and is inflation adjusted each year. Social Security also pays a spouse benefit.

Once you've made this list, it's time to add up your sources of retirement income. Look at the income total and compare it to your current monthly income today.

The second step is to calculate your net worth. Estimate the total value of your assets, including cash, home equity, automobiles, other personal property, the value of insurance policies and so on. Then, subtract the total of your liabilities, including mortgages, credit card and loan balances, home equity loans and other debts from your total assets. The result is your net worth. Remember, not all of your assets—your house or car, for example—will be available for retire-

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From WISER's Executive Director

In this issue, we tell the story of the remarkable women of *Appalachian by Design*—a collective of self-employed knitters and weavers in the mountains of West Virginia. WISER helped them get started with a retirement plan and they have just completed the first year of their pilot project. Their determination to improve their economic lives led them to create a retirement plan despite numerous legal and economic hurdles.

Our lead story *"Are You on Track to a Secure Retirement?"* is our effort to reach out to women and motivate them to figure out how much they have in their retirement savings and assets and start the journey toward a more secure future. Take the time to figure it out.

Cindy Hounsell

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WOMENS INSTITUTE FOR A SECURE RETIREMENT

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Investigating Hidden Credit Card Charges

"The Case of the Ambiguous Interest Rate"

So you have just received your brand new platinum credit card, with a $25,000 spending limit and a 0% introductory interest rate. There are no additional fees in sight, but before you start charging on that new card there are a few things that you need to know when it comes to interest rates.

While average consumers do everything in their power to avoid credit cards' hidden fees and charges, remember that the companies thrive off of these penalties. According to Bankrate.com, "In 2001 credit card companies amassed 28% of their total revenue from additional charges."

This trend towards greater fees and penalties tells us that hidden fees are lurking within the fine print of every statement. For example, a late payment on one card can affect the interest rate of other credit cards. According to a Consumer Action survey, 39% of card issuers will raise cardholders' rates because of their credit record with other creditors. Such practices make it extraordinarily important to ensure that you are paying ALL of your bills precisely on time.

Credit card companies call this change in interest rates "repricing." They justify such practices by stating that various credit reports are used to assess a customer's risk level and payment practices. So what can you do to avoid being charged with hefty late fines and drastically higher interest rates? Here are a few tips!

5 Credit Card Tips:

1) Choose a bank that does not use late payments with other cards as a reason to raise the interest rate on their card.

2) Do the research! Before accepting the first credit card application that is mailed to you, figure out your credit needs, then check out Bankrate.com for help.

3) Make sure you know exactly when your payment is due; many companies enforce stringent time limits as well as date deadlines. For example, if you're five minutes late it could cost you $29. Even though your due date may be the 15th of the month, upon further inspecting your statement, you might see it's due by 1 p.m. To fully understand your payment guidelines, read the back of your bill which provides the time in which your payment must be received in order to be credited that day.

4) Cards that offer 0% introductory interest rates often apply the harshest penalties on late payments. For example: Pay late once and an APR ranging from 13.49% to 23.49% could be applied. You could also be stuck with a $39 late fee. Pay late twice in any six-month period and you could receive another $39 late fee and a penalty interest rate as high as 29.49%.

5) Don't forget about "residual interest": this is the interest that is accrued from the time you receive your bill to when the credit card company processes your payment. The statement in bold, called the "payoff balance", is sometimes out of date by the time the payment process is complete, due to interest accrued while the check is en-route. To avoid this, call your credit card company and ask how much your payment will be when "residual interest" is accounted for.

Bankruptcy Increasing Among Older Americans

Economic experts are sounding the alarm bells about two worrisome trends—older Americans racking up major credit card and mortgage debt, and a sharp increase in the number of bankruptcies among the same group. People over 50 are accumulating far more debt than previous generations, and this debt is undermining the security of their retirement. As a result, over the last decade, the number of older persons declaring bankruptcy has more than doubled.

Why? The top reasons are increased health care costs and job loss.

Older Americans face greater burdens with health care costs all the time. Prescription drug costs have increased at about twice the rate of inflation for many years. There has been a substantial increase in the number of employers dropping or reducing retiree health coverage. Many people are not aware that Medicare has substantial out-of-pocket costs. Medicare enrollees in managed care plans do not escape the pressure. Enrollees in poor health paid an average of $3,588 out of pocket in 2001, triple the out-of-pocket cost of those in good health in the same managed care plans, according to the Commonwealth Fund.

Many older Americans rely on jobs to make ends meet. If they lose their jobs, they are economically devastated. Many turn to credit cards or home equity to meet health expenses, beginning the process of building up debt. For many, the debt becomes too great and they end up declaring bankruptcy.

"In all of our workshops, we stress the need to pay off debts and prepare for retirement with little or no debt and substantial savings," said Cindy Hounsell, WISER's Executive Director. "Recent studies underscore the need to make more women aware of the high costs of health care in retirement, and to help them plan to meet those expenses without relying on credit cards or home equity."

If you are approaching retirement and struggling with debt, contact a non-profit credit counseling service. The National Foundation for Credit Counseling can help you make a plan for getting out of debt. A list of non-profit centers is available at www.nfcc.org or call 800-388-2227.

What Do We Know About Our Retirement—and When Do We Know It?

Because WISER focuses on retirement planning and education, we are always trying to get an idea of how prepared most people are. We get some idea from the women that we talk to—in workshops, on the telephone, our colleagues, friends and neighbors, but we also read surveys and studies.

72% of [people] expect to have about the same standard of living in retirement as they do now...however, just over half say they could be doing more to save and prepare for retirement.

Recently Hewitt Associates, a benefits consulting firm, conducted a survey of people working at large companies and asked questions about their perspectives on retirement saving. It found that 72% of those surveyed expect to have about the same standard of living in retirement as they do now. At the same time, however, just over half say they could be doing more to save and prepare for retirement. The top reasons that people gave were not surprising: a lack of time and a lack of money, with many saying they were living from paycheck to paycheck.

According to the survey, the top financial needs that compete with saving for retirement are: day-to-day needs, saving for emergencies and saving for children. Day-to-day needs were more likely to be a distraction to saving for those with somewhat lower incomes and those who had significantly less in their savings plans.

Hot Tip!

On May 1, the federal government changed the interest rates for U.S. Savings Bonds. The interest rate for I Bonds is now 3.39%, and for EE Bonds 2.84%. These interest rates will change again in November, but remember the advantage of I Bonds is that the interest rate is tied to inflation.

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ment income unless you sell them and invest the funds or take a reverse mortgage and use your home equity as a source of retirement funds.

Calculate how much income you will need in retirement. Most experts recommend planning for at least 80% of your current pre-tax income in order to maintain your current living standard. One big factor to consider is whether you own your own home or rent. If you will own your home outright by retirement, you can safely choose a lesser amount. If you are renting however, you do not want to be in a position of needing to find a less expensive apartment. With inflation, your housing costs will be higher than they are now.

Finally, calculate the gap between income from Social Security, retirement plans and assets and your retirement income goal. The gap represents the amount you will need to save between now and retirement in order to meet your overall goals.

> ***Don't fall into the trap of thinking that saving small amounts of money isn't worth bothering with.***

How much you need to save each year to fill the gap is a complicated calculation, depending on several factors including the rate of return you get from your savings and inflation. Remember that the sooner you start saving, the easier it will be to realize your goals. WISER's website (www.wiserwomen.org) has an online calculator that can be used to calculate how much you will need to save each year in order to build the nest egg you need to retire with security.

Like most of us, chances are you will be surprised by the calculations. Many people who go through these exercises find out that their savings rate is inadequate to finance a comfortable retirement. Even worse, some people faced with this information adopt a "What's the use?" attitude and get discouraged from saving at all. Remember, saving something is always better than not saving at all. And, it's never too late to get started.

If you're living paycheck to paycheck, and struggling to find money to save for retirement, consider these options.

- **Sometimes, the best first step is to pay off your credit card and loan debts.** If you're paying high interest credit card debts, you need to break that cycle. Cut back on expenses or consider doubling payments to the credit card companies. If you pay only the minimum each month, you will have those debts for decades. Once you pay off the credit card balances, put the money in a retirement savings account. Resist the temptation to charge on those accounts again.
- **Be sure to participate fully in your workplace retirement plans.** If your employer will match your contributions to your

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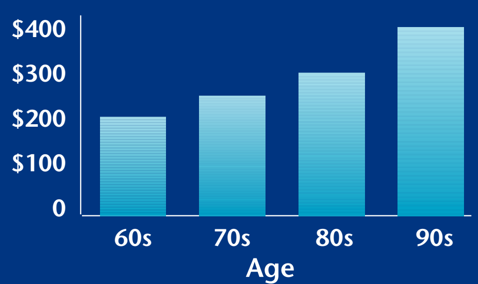
The chart below shows a "rule of thumb" for how much of your total savings you can safely withdraw each year of retirement and make the money last a lifetime, depending upon your age.

Estimated Amount You Can Withdraw From Retirement Savings by Age

Age	Percent of Assets
50s	3-5%
60s	4-6%
70s	5-7%
80s	6-8%
90s	8-10%

If you have $50,000 saved for retirement, for example, you can withdraw $2,500 per year in your sixties or about $200.00 each month. In your seventies, you can withdraw $3,000 each year, or about $250.00 each month. The amount you can withdraw each month in your eighties will increase to about $300 and to about $400 each month in your nineties. ▶

Example of Monthly Withdrawals with $50,000 Saved for Retirement



Medicare Drug Benefit

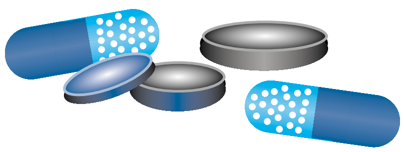
A prescription for controversy

The controversy continues over the recent Medicare prescription drug legislation. Recent estimates put the cost of the drug coverage at $534 billion over ten years, much higher than the original $395 billion estimate. Legislators on both sides of the aisle are unhappy that the price tag has increased so dramatically. The Bush Administration points out that the legislation is complex and that uncertainty in some of the economic assumptions has produced a range of cost estimates.

Some Democrats in the Senate want to change the legislation, and try to improve the subsidies to help low-income individuals participating in the prescription drug program, but it is unlikely that anything will happen during the 2004 election season.

Meanwhile, the new law's prescription discount cards are available now. The Administration estimates that seniors who purchase a card for approximately $30 annually will save about 15-25% on their drug purchases using the discount card. Low-income individuals (those with incomes under $12,569 for an individual or $16,862 for a couple) will receive a discount card for free and the card will be "loaded" with $600 in cash with which to purchase prescription drugs. The Administration hails the discount card program as a first important step in a "promise kept" to seniors for much needed help with prescription drugs. Critics charge that without limits on inflation in drug costs, if manufacturers continue to raise prices at a rate higher than inflation, the discount card won't help much.

Stay tuned as Congress continues to grapple with policy issues and the politics of the prescription drug legislation.



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401(k)—that's free money. Don't pass it up. If your job does not have retirement benefits, consider looking for a job with a retirement plan. Conversely, think carefully about leaving a job if you will be leaving pension payments or moving to a situation with little or no retirement benefits. You will need a backup plan to compensate for the lost retirement income.

- **Finally, learn to live beneath your means.** That's how people build wealth. Keep track of all of your spending for one month and see where your money is going. Examine your list carefully and you will be sure to find ways to cut back on expenses. Try going to the library instead of buying books or invite friends to a pot-luck dinner instead of eating out. Don't fall into the trap of thinking that saving small amounts of money isn't worth bothering with. Money saved and invested early can have a big return at retirement. Establish a monthly budget for yourself and stick to it. Make sure the budget includes a contribution to your retirement plan every month. Women need to learn to pay themselves before buying sneakers and summer camp for the kids.

Start now and stick to a plan!

National Clearinghouse Update

Watch for valuable new information on WISER's website as we continue our on-going work to establish a National Clearinghouse on Women and Retirement, funded by the federal Administration on Aging. Over the course of this year, WISER will be offering new financial education materials on an array of topics, including materials translated in five languages. Right now, you can find retirement and college savings calculators and a savings calculator for kids on the website under Saving and Investing. Also, on our home page, you'll find a link to our latest reports, *What Everyone Needs to Know About Money and Retirement,* including a Spanish translation of this publication and *Seven Life-Defining Financial Decisions.*

And, as always, we welcome your suggestions. Write us at info@wiserwomen.org.

www.wiserwomen.org

Did You Know?

Seniors age 65-69 saw their credit card debt rise by 217 percent to an average of $5,844.

WISER Women by Design

A few years ago, WISER Executive Director Cindy Hounsell, made a presentation to the women affiliated with *Appalachian by Design* in West Virginia on planning and saving for retirement.

Appalachian by Design (ABD) is a nonprofit economic development company that provides training and finds markets for a network of self-employed skilled knitters, weavers and hand finishers who work in their homes throughout the mountains of West Virginia. The company was created by and for rural women, and since its inception in 1994 has reinvented the cottage industry, providing 150 knitters with training and opportunities to earn a decent wage while continuing to live the rural, family-centered lifestyle they cherish. Their upscale knitted products have been sold in boutiques and trunk shows across the country.

After hearing the presentation, *ABD* embarked on a journey to collaborate with WISER and other partners to create a retirement savings vehicle for the women of *ABD*. They decided to use the Individual Development Account model, developed in the U.S. in the 1990s, to guide their work. Despite numerous legal hurdles, this unique pilot project just completed it's first year and 12 knitters who enrolled in the program are now saving for retirement and participating in ongoing financial education programs. WISER helped secure matching funds for the participants' contributions from the Heinz Family Philanthropies.

Diane Browning, the *ABD* Executive Director, believes that the most important outcome is that the knitters develop the habit of saving. She would like to see the knitters form a savings club to encourage each other and share information as they learn more about investing and saving.

"I am moved by the commitment of the women of *ABD*. The staff and the knitters together found a way to save for the future," said Cindy Hounsell, Executive Director of WISER. "The staff and knitters of *Appalachian by Design* are an inspiration to all of us." Check out their clothing line and more at www.ABDinc.org

Next Issue:

- **Financial Steps for Caregivers: Women Caring for Parents and Children**

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