

[*money after 50*]

Everyone knows it pays to be budget-conscious, but preparing for a comfortable future takes some aggressive management of savings, investments and assets. More and more of us, according to projections by the U.S. Census Bureau, will live into our 80s and 90s. Making the best of a long life calls for care-

vidual Retirement Accounts (IRAs), employee-benefit retirement accounts, insurance policies and any annuity policies you may have. If your spouse has been the family bookkeeper, sit down and go over your records together.

## Take charge of your finances

By Holly  
Wheelwright

ful planning now. Experts urge women to know every detail of their own financial situation. Here are 12 steps to take right away to build a secure and comfortable future.

### 1. Draw a map of your financial landscape

Many women only begin to pull together the pieces of their financial picture at a time of crisis—illness, divorce, a husband's death. That's not wise, says Barbara Pope, partner in charge of personal financial services at Price Waterhouse in Chicago: "When you are coping with enormous stress, you are in no shape to have to learn financial details." Instead, plan ahead. When all is calm and quiet, take a day to gather all your financial records in one place—recent bank statements, statements from investments, Indi-

Draw up a list of all your assets (everything from investments to savings and personal belongings), liabilities (mortgage debt, credit-card balances, personal loans), employee benefits (yours and your husband's), insurance (life, homeowner's, auto, disability) and your future Social Security coverage. To find out what those Social Security benefits will be when you are eligible to get them, call 800-772-1213.

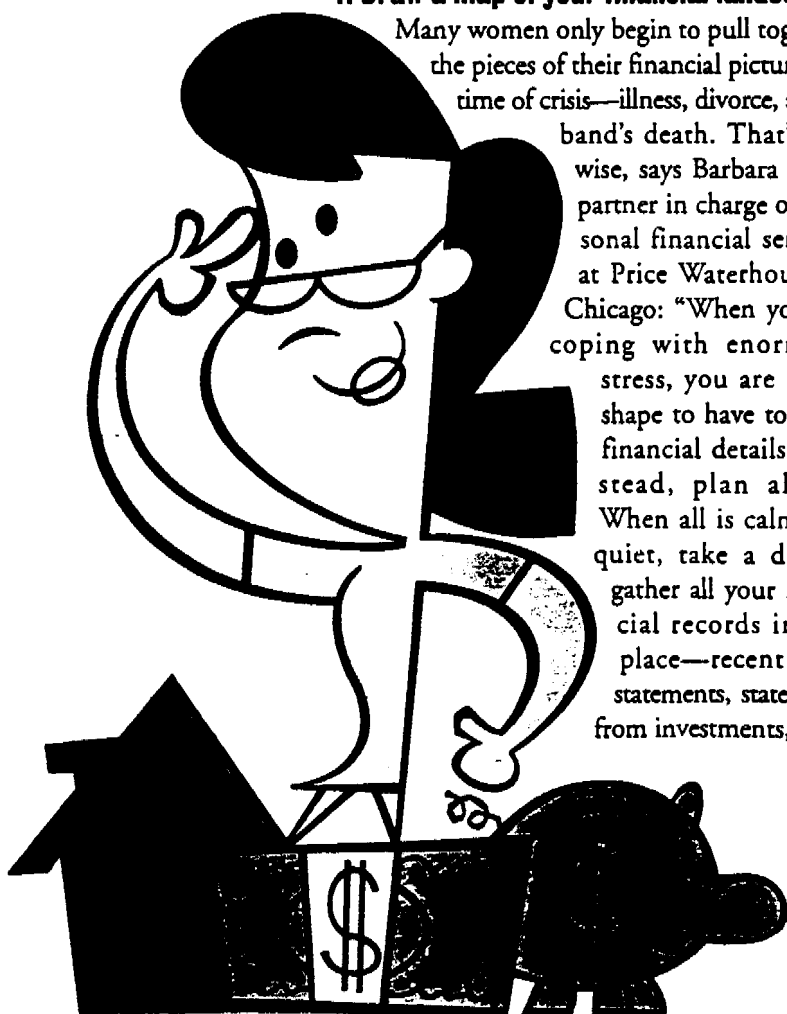
Make copies of your list to give to your lawyer, your children if they are in their late teens or older, or a trusted relative or friend, so that you or those close to you can find key documents whenever they are needed.

### 2. Tally your living costs—both present and anticipated

Itemize—with a careful list of current income and expenses—what it costs you to live now. Then look ahead to retirement and estimate your living costs for that stage of life as well. "Retirement expenses will vary depending on whether a person has finished paying off her mortgage, where she wants to live, what she dreams of doing," says Steven Enright, president of Enright Financial Advisers in River Vale, New Jersey. Most planners advise clients to anticipate having retirement expenses that will be 60 to 80 percent of their cost of living during their working years. Knowing what income you'll have and what you want to do with it—spend less on clothes, perhaps, and more on travel—can help you plan ahead with confidence.

### 3. Don't fail to fund tax-deferred savings plans

Stash money that can give you tax benefits in an IRA, Keogh plan (for self-employed individuals) or 401(k) plan (which companies offer to their





*Know where you stand financially, the experts say. That's the rule that puts the golden in the years that lie ahead.*

employees). In most cases these plans allow you to deduct your contribution on your tax return each year, and the earnings on the investments will not be taxed until you start to take withdrawals after age 59½ or later. IRAs can be set up with a mutual fund or at your bank and can be funded with stocks, cash, certificates of deposit (CDs)—just about anything but precious metals and collectibles. A Keogh works basically the same way for the self-employed but allows a higher maximum contribution. A 401(k) is available only through your employer.

If it's financially feasible, sock away in these tax-deferred savings plans the maximum amount allowed each year. "Pensions and Social Security may make up only a small portion of your retirement income in the future," says Barbara Pope. "Employers are putting more and more of the responsibility for retirement savings on the employee's shoulders with 401(k) plans—some will even match all or part of your contribution." (Some employers that offer a 401(k) may reduce pension-plan benefits at the same time. Check with your benefits department.)

#### **4. If you divorce, don't just divide the portfolio down the middle**

The true value of an investment may be different to you as a single person than as part of a couple. When dividing up marital property and assets, look ahead to the tax consequences.

According to Violet Woodhouse and Victoria

Felton-Collins, certified financial planners and authors of *Divorce and Money: Everything You Need to Know About Dividing Property*, it's unwise to take, in the settlement, an asset that is too risky for you—such as a house you may not want to live in or can't afford to support a year later. You will then probably end up selling when the asset is on the down slope, taking a loss. You and your spouse should choose the assets that suit each of your new needs and sell the rest prior to the divorce. This way you share the costs of the sale and the tax bite. There are exceptions to this "sell now" approach, so before making financial moves discuss the tax consequences with *your own* financial planner.

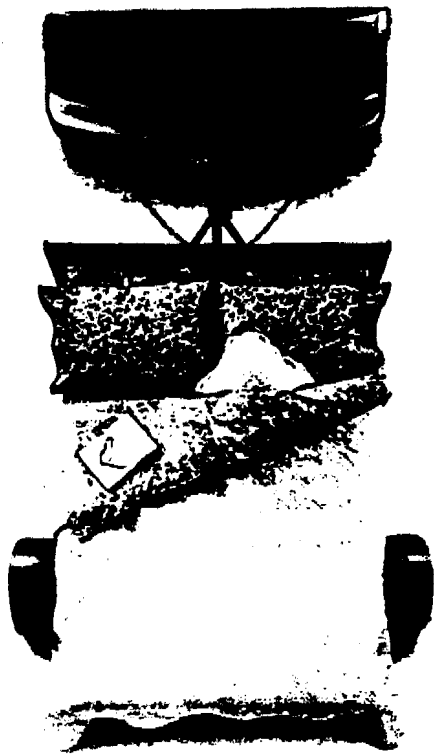
#### **5. Selling your house? Watch out**

Unless you bought your house recently at the top of the real-estate market, you will probably get a lot more than you paid for it. If you don't buy another house for at least the same price, you will have to pay taxes on the profit . . . unless you are over age 55, in which case you are allowed a \$125,000 exclusion from gains taxes. But, this is a one-time-only-per-household break. Consider the tax consequences if you are over 55 and are planning to marry or remarry. It might be wise for either you or your fiancé to unload a home before you pledge your vows. That way you can still take two exclusions, rather than the one allowed for each family.

#### **6. Invest for growth**

Keep your money growing. Just as you may still have half your life ahead of you, your savings have all that time to get eaten away by inflation. Consider this example: If you buy a certificate of deposit that pays 5 percent, the real growth over a year is 5 percent, less the rate of inflation. In other words, if inflation runs at 4 percent over the next 12 months, your investment increases by 1 percent. If inflation moves upward, and some economists think it will as the country's economy comes back to life, your 5-percent fixed-income investment could get swallowed up by inflation of 6 or 7 percent. So don't make the classic mistake of moving all your retirement nest egg into just such long-term fixed-income investments.

Since stocks usually do better than bonds and



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other fixed-income investments over time, you should have about 40 percent of your total portfolio in stocks, Pope advises. A growth-stock mutual fund allows you to collect not only dividends but also the capital gain on the investment over time, for a total return that could easily exceed 10 percent, averaged out over the years. The diversity of holdings in the fund gives you additional protection from market swings that can hit hard if you put the whole 40 percent in the stock of one company, for example.

If you are very conservative by nature, investment adviser Stanford Young of P. R. Taylor, Inc., in Palo Alto, California, suggests that you roll perhaps 40 percent of your available cash into CDs with durations of up to two years. The remainder should go into short-term bond funds, those that invest in corporate bonds with a rating of A or higher and that have one- to five-year durations.

"With such an approach you should get close to 7 percent nowadays," says Young. Another suggestion, for those who are more comfortable with stock-market risks: income-oriented stock funds that invest in high-dividend stocks. But, say all financial advisers, beware of scams. If an investment sounds too good to be true, it probably is. Find an accountant or adviser you trust—and trust your instincts most of all.

## 7. Update your insurance needs

If your children are grown and financially independent, and any other dependents are looked after, cut back on life insurance on yourself. At the same time, reassess another must, liability insurance—in case of a mishap such as a guest slipping on your steps and breaking a leg. A \$1-million policy is usually enough coverage.

Disability insurance—a form of coverage that pays out a monthly amount in the event you are unable to work because of illness or other disability—is critical. Check that you are adequately covered at work or take out a policy of

your own. Experts also suggest maintaining a year's salary in cash savings for added protection. When buying any insurance, be sure to stick with the big, leading national firms.

## 8. Understand your choices before you take a distribution from your employee-benefit plan

The tax rules for taking money out of your plan—a 401(k) at work, for example—are complicated, depending on your age and other factors. In many cases you have only 60 days in which to make up your mind on what to do with the money; unwise choices can leave you paying taxes that you could have avoided. Get full information from your company's benefits department or your financial planner or ac-

countant well ahead of time so you can make the best choice before deciding when to retire or withdraw money.

## 9. Bring your children into the picture

By the time children are in college it is appropriate for them to have a general idea of your finances, Enright says. Having a broad picture of your financial arrangements will help them understand your plans and potential needs and can be very helpful to them as a blueprint for their own planning.

## 10. Nudge your kids out of the nest

These are really hard times for young people starting out. Even kids with brand-new law degrees are having trouble finding work, so yours may need to live with you for a while until they get started. No matter how tough things are, though, they will feel and do better if you don't coddle them with extra spending money or comforts. Says financial planner Enright, "You probably can't charge rent to someone who is not earning, but you can be careful that he or she doesn't lose incentive to make a go of it."

*Always try to sock away in tax-deferred savings plans the maximum amount allowed each year.*



*Plan ahead:  
When all  
is calm and  
quiet, take a  
day to gather  
all your  
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records in  
one place.*

**11. Keep your will up-to-date**

If you drew up your will years ago, review it to be sure it reflects your current situation and wishes. In the interim your Early American furniture may have tripled in value, your sister who was to be your executor may be in poor health and unable

to take on the work of handling your estate, your children's needs may have changed, or you may have acquired grandchildren to whom you would like to leave some assets directly. Not only must your will be up-to-date to ensure that those you care for will be remem-

bered as you wish, but taking stock for this purpose can help you get on top of your total financial picture.

**12. Make a living will or assign power of attorney for your health care**

A living will makes your wishes clear to health-care professionals in the event you become seriously ill. Also, it is important to give a child or close friend power of attorney to make medical decisions if you are unable to do so. While many of us who are 50 and over are still blessed with caring parents, it is probably wiser to choose someone younger.

Know where you stand. That financial rule puts the *golden* in the years that lie ahead. Implement these 12 steps now and enjoy the good feeling that comes with taking charge of your money matters. ■

*Holly Wheelwright is a senior reporter for Money magazine.*

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