Protect That Nest Egg

You've saved it. Now comes the tricky part: making it last.

By Glenn Ruffenach

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And you thought building your nest egg was hard.

For years you listened to the warnings -- from financial planners, tax lawyers, accountants, even your mother: Start saving for retirement. And so you did, amassing stocks, bonds, 401(k)s, what have you. A pot of gold. Your own carefully nurtured nest egg.

Now, you're getting ready to retire, or have already done so -- and the same crowd is at it again. Only this time, the warnings revolve around the perils of tapping your savings: bungling a lump sum, running afoul of tax laws, watching your investments expire before you do.

Fine. Indulge the alarmists -- but up to a point. For all the supposed angst, making the move from the front lines to the sidelines can, in fact, be quite manageable. Indeed, there's a fair amount of evidence to suggest that the best advice for either a would-be or established retiree is to ...

Relax. (Well, at least a little.)

Retirement today, says Lynn Hopewell, president of Monitor Group Inc., family investment advisers based in Fairfax, Va., "is actually more feasible than many people realize." And with good reason. The 15-year run-up in the stock market has left many people age 55 and older with some dinosaur-size nest eggs.

An estimated $1.5 trillion now sits in so-called defined-contribution accounts, such as 401(k)s, according to the Employee Benefit Research Institute in Washington. Another $1.5 trillion resides in individual retirement accounts and other plans that aren't company-sponsored. Nationwide, people 55 to 64 years old have more discretionary income than any other age group: an annual average of $6,500 each.

Social Security, for the time being, is healthy -- as are many Americans. Three in four people age 65 to 74, according to the National Center for Health Statistics, describe themselves as being in good, very good or excellent health. Retirees are swelling the ranks of health clubs, volunteer groups and schools. From 1990 to 1995, the number of individuals age 65 and older who enrolled in adult-education classes jumped 55%, compared with 33% for the total student body.

Sure, there's some not-so-good news. What if you or your spouse -- or both of you -- needs to enter a nursing home? (Once you reach age 65, you run about a 40% risk of spending some time in a long-term care facility.) What if inflation starts feeling frisky? (Even at 3.7%, the average rate of inflation for the past decade, the automobile that costs $20,000 today will cost about $29,000 in just 10 years.) What if you outlive your savings? (The U.S. is expected to have about 324,000 centenarians by the year 2030, compared with about 60,000 today.)

Such concerns -- not to mention the government's tendency to make tax laws, Medicare regulations and estate planning as clear as mud -- haven't done much for retirees' peace of mind. Only 30% of retirees surveyed last year by the EBRI said they were "very" confident about having enough money to live comfortably in retirement. Forty-three percent said they were "somewhat" confident, and 24% said they were "not too" confident, or "not confident at all."

And yet, as unsettling as those numbers might appear, thousands of people each day continue to cross the divide between four decades of working and those two to three decades of retirement. And the transition doesn't have to be painful.

"Three-quarters of the clients we see are in very good condition," says Kathryn Bickford, a certified financial planner in Stratham, N.H. "Maybe they need a little adjustment to their portfolio; maybe they're a little more conservative than they need to be. But most have done a good job."

So, how do you know where you stand? There's really no quick way to figure that out. Whether you're looking ahead to retirement or have already embarked on it, you've got a number of choices and questions to consider in depth. Here's a look at some of the issues that appear to baffle retirees the most.

The First Question

Almost without fail, the first question that a financial planner hears from a would-be retiree is: Have I saved enough money? The easy answer is "sure" -- if a tent and some wild mushrooms are adequate for your housing and grocery needs.

The right answer, says Mr. Hopewell at Monitor Group, depends on four main factors: the rate of return on the investments, taxes, inflation and one's life expectancy. Unless a person considers how each of those factors might affect his or her finances, the mere size of the nest egg is meaningless.

Take a simple example: A $1 million estate earning 8% a year would disappear in just 14 years if a retiree were to withdraw 12% of the available funds annually; the same nest egg, though, earning 11% would last 24 years. Put another way, if you retire at age 63, your $1 million could be gone by age 77 -- or could continue to provide a monthly check through age 87.

Another key factor to consider is how the nest egg will be used. Is it solely for your own retirement needs? Will it serve, in part, as a legacy for the kids? For charity? The answer could change your income substantially.

Consider this example from Mr. Hopewell:

Two retired couples, each with a life expectancy of 20 more years, have $1 million in savings. The first couple is of two minds: They would like to withdraw some money from their account to contribute to their annual income -- but they also want to leave, if possible, $1 million to their children at the end of the 20 years. (In other words, the principal would be left intact.) The second couple, by contrast, thinks their kids are doing just fine, thank you; they plan to use every penny of the $1 million for their own retirement.

So, how much can each couple withdraw from their respective accounts the first year (assuming both accounts earn 8%, both couples pay 33% in taxes and the amount withdrawn each year increases by the rate of inflation)? The first couple: about $12,000. The second couple: about $59,000. The difference is a lot of greens fees.

"I've seen couples with $500,000 who are sure they have enough [money], and I've seen couples with $3 million who aren't sure at all," Mr. Hopewell says. The latter, he explains, often "don't know how to manage their spending. That's

really important."

New retirees are also fond of asking: What percentage of my preretirement income should I expect to spend in retirement? Few questions prompt more heated debate -- and more diverse answers -- from financial planners. "Expenses go way down" for many people, says Tim Medley, a financial adviser in Jackson, Miss. "The house is often paid for, you're no longer putting money into 401(k) and retirement plans, [and] the kids are independent."

Not so, responds Janet Briaud, a financial adviser in Bryan, Texas: "Retirees have a lot more time to spend money. There's more travel. More spending in stores."

A majority of retirees interviewed for this article tend to side with Mr. Medley, indicating that they aren't spending quite as much in retirement as they would have imagined. Franc Ferraracio, age 75, who retired at 62 after a career in health-care administration, estimates he now spends about 50% as much as he did during his working years. He goes through the list: Housing costs and taxes are down (he moved to Clarksville, Tenn., from Washington, D.C., after retiring); entertaining costs are down; auto expenses are down. "We used to have three or four cars" in the family, he says. Now "one is enough."

Conventional wisdom holds that retirees need about 70% of their annual preretirement income to maintain a similar lifestyle. But individual needs vary so much that any one figure is unreliable.

To help calculate how much you can afford to spend in retirement -- and whether your current nest egg will leave you with an annual surplus or shortfall -- you can fill out the accompanying worksheets. They can quickly give you a rough answer to that First Question.

Getting Help

Question: Your 401(k) plan at work is filled to the brim with company stock, and you are about to retire. Do you:

a. Cash out?

b. Roll the stock directly into an individual retirement account, where you can defer taxes?

c. Walk away with the stock certificates?

d. Abandon your plans to retire with the hope that this, and a hundred numbing questions like it, will go away?

Perhaps the single biggest favor that new -- and even not-so-new -- retirees can do for themselves is to find a good financial adviser. There are two reasons for this. First, while "we do a good job in this life of teaching people how to make money, we don't really teach them how to manage money," says Judy Lau, a certified financial planner in Wilmington, Del. And nowadays, many retirees have a lot of money to manage. Ed Slott, a certified public accountant in Rockville Centre, N.Y., who specializes in estate-tax issues, says he regularly sees high-school teachers with $500,000 and more in their retirement accounts. Nest eggs of $1 million, he adds, "aren't unusual at all."

The second reason, as the above question illustrates, is the sheer complexity of the many financial issues in retirement. Consider that the answer could very well be "C," depending on your "cost basis," the effect of "net unrealized appreciation," and the potential advantage of lower tax rates on capital gains.

Retirement "is like a summer storm, dumping buckets of information on you," says Christine Fahlund, a certified financial planner at T. Rowe Price Associates Inc. in Baltimore. "There's so much you don't think of."

Ian Ferguson, for instance, says he was "stunned" to learn how much capital he would need in retirement -- not to mention what inflation could do to his savings over the course of 20 years, or what pitfalls awaited him in exercising his stock options. Now age 67, Mr. Ferguson, who lives with his wife, Jacque, in Columbia, Md., says that before retiring from Marriott Corp. in 1991, "I thought I was doing a good job [managing] our money." But "with all the estate and tax questions, a financial planner is almost a requirement."

Other forms of help are certainly available. Software packages from mutual-fund companies, many of them free, can give would-be retirees a rough blueprint for the future. And employees can sometimes get financial assistance at work. GTE Corp. and Pfizer Inc., for instance, offer a program called Retire Right, developed by Ayco Co., a financial-planning and counseling concern in Albany, N.Y., in

which new retirees can speak with a financial adviser by telephone as often as they wish during a six-month period surrounding their departure.

But a financial adviser, ideally, will help steer a retiree's course for years, taking into account not only the nest egg but also such issues as estate planning and insurance needs.

Where do you find one? Walk out your front door, and you're likely to trip over a few; an estimated 200,000 to 400,000 financial planners, consultants, advisers, brokers and insurance agents are scrambling for retirees' business. The list can be narrowed by calling major trade associations, such as the Institute of Certified Financial Planners (800-282-7526), the International Association for Financial Planning (888-806-7526) and the National Association of Personal Financial Advisors (888-333-6659). Seeking out a "certified financial planner," while no guarantee of success, is often a good idea; that distinction means the planner has passed a national exam, usually after two years of study.

Fee-only planners, who typically make their money by charging an hourly rate or by collecting a percentage of assets managed -- as opposed to financial advisers who work on commission -- clearly are finding more favor within the industry. The former, supposedly, have no conflicts of interest when recommending a particular investment. But that's not to say "that every fee-only adviser is pure and holy and that everybody who works on commission has dirty hands," says Diane MacPhee, a fee-only certified financial planner in Montclair, N.J. The key, she says, is full disclosure: knowing precisely what charges are involved for each and every service.

Expect to pay anywhere from $1,000 to $5,000 or more for a comprehensive retirement plan (depending on an estate's size and components); annual management fees generally range from 0.5% to 1.5% of an account's assets.

Fees, of course, aren't nearly as significant as an adviser's experience and abilities. Track records alone can be misleading. Ronald Roge, a certified financial planner in Bohemia, N.Y., notes that a prospective client might be thrilled, at first glance, with the 20% return that a particular planner achieves (or promises); that planner, though, could be taking far more risk to reach that number than you might be comfortable with. Ms. MacPhee, meanwhile, warns that not all financial planners are "retirement planners." Some specialize in

financial planning for small businesses or for people involved in a divorce, and do only a small amount of work with individual retirees.

Wills and Estate Planning

Certainly, a will is a key document in any home. And the number of supposedly enlightened Americans above the age of reason who still don't have one would make the angels weep.

Interestingly, some people go to the trouble of preparing wills, but balk at signing them. Lex Watson, a tax lawyer in Atlanta, recalls a client who refused for three years to sign his will. All but defeated, Mr. Watson says, he struck upon the idea of calling the man while he was driving. The client picked up the call on his car phone, and Mr. Watson then patched in the client's wife at home, creating a three-way conversation. At that point, Mr. Watson proceeded to outline all the terrible things that would happen to the client's family if he were to meet his maker at a speed of roughly 65 miles an hour. The man signed.

A will alone, however, might not be enough to prevent your heirs, after you die, from giving the bulk of their inheritance away to that crazy uncle named Sam.

"Most people have 'love-me' wills," says Mr. Slott, the CPA in New York. "The husband leaves everything to the wife, the wife leaves everything to the husband, and they both end up leaving a big part of what they owned to the government.

"Why spend all that time building and building [an estate], and then do nothing about preserving it?" he asks.

Some basics: Taxes, believe it or not, aren't everything. If a surviving spouse will need all, or almost all, of an estate to provide for himself or herself, efforts to shelter an estate from the IRS aren't really necessary. A husband and wife can leave everything to each other tax-free. Period.

It's when the surviving spouse dies that the trouble starts. Indeed, the tax bill on a $1.2 million estate -- left by a surviving spouse to his or her heirs -- could total $235,000.

Enter estate planning. That $235,000 bill could be avoided completely if each

spouse, say, were to place $600,000 in a credit-shelter, or "bypass," trust. A surviving spouse could use that trust and eventually pass along the entire estate, free of any federal tax. (Under the new tax laws, the amount an individual can give away or transfer at death without incurring taxes will gradually increase over the next decade to $1 million.)

The point here is to recognize the need for such planning, and that your estate is probably much larger than you think.

"I was shocked -- pleasantly -- but still shocked," says Ken Winkler, a 60-year-old retiree in Cumming, Ga. He is referring to the inventory that he and his wife recently took of all their holdings, an inventory that quickly rushed past $1 million in value. There was the house, insurance policies, individual stocks (including one he thought he had sold), retirement savings, a credit-union account, autos, jewelry and any number of "other treasures." All of which, he says, led to his "second shock -- the amount the IRS would get" if no precautions were taken.

In the time since, Mr. Winkler says, he has hired a lawyer, for just under $2,000, to restructure his estate. Ownership of some assets has been transferred to Mr. Winkler's wife, life insurance has been moved outside the estate and placed in a trust, and the couple is developing a "gifting" plan to begin handing over portions of their estate to their children.

How to Take the Money

So, you're leaving your company and the question arises: Do you want your pension in a lump sum or an annuity (a series of equal, usually monthly, payments)? And, by the way: What do you want to do with your 401(k)?

Let's take the 401(k) first.

One obvious option with a 401(k), or any retirement fund, is simply to cash out -- to take the money and run. The problem, of course, is that you have to pay income taxes on the entire amount. Even taking advantage of IRS rules that allow some people 59 1/2 and older to ease the pain through "forward averaging" -- treating the money as if it had been received over five or 10 years -- still leaves a nasty bill.

Most financial planners advise rolling over a 401(k) or similar retirement fund into an IRA. Doing so gives retirees control of those funds, allowing them to choose from numerous investments. Moreover, placing the money in an IRA allows the funds to continue to grow tax-deferred.

There are some exceptions, of course. Rolling over a 401(k) filled with company stock might prove more costly than transferring it to your regular brokerage account. Still another possibility, sometimes overlooked, is "deferring" your withdrawal: simply leaving the money in the company plan, if the company allows it. If you're happy with the investment options and performance of your existing plan, says Russell Kelley, vice president-financial related services at Ayco Co., stick with them.

All that said, most people will, and probably should, roll their retirement funds into an IRA. One caveat: Unless you arrange for a "trustee-to-trustee" transfer of your funds -- where the money is sent directly from your company 401(k) to your new IRA account -- the IRS will hit you with a 20% penalty. (There are ways to get the money back, but it's simpler to avoid the sizable slap on the wrist in the first place.)

The question of how to take your pension is trickier. Again, the easy answer is to take the lump sum, if offered, and place it in an IRA. But the idea of a regular paycheck, with no investment worries, is clearly appealing to some people. The difficult part is deciding whether to take a single annuity -- a single paycheck -- for yourself, or a "joint and survivor" annuity, in which both you and your spouse each receive a check, although one that's reduced in size.

Typically, a person choosing an annuity, if married, will want two checks; this way, if the retiree dies, the spouse continues to receive some income. Some financial advisers, though, recommend "maximizing" your pension by selecting the larger, single annuity and buying a life-insurance policy to take care of your spouse.

Invariably, the advisers who push this option are the ones who sell life insurance, too. And when you take that step, they take a sales commission. The best advice: Generally avoid "pension maximization." The insurance is often too costly, and if you try to economize on it, you could be putting your spouse at risk.

Social Security Benefits

The answers are: Yes, yes and it depends.

Yes, Social Security is in good shape at the moment, and should be for at least the next 30 years. Even if no changes are made in funding or benefits, annual demands on the system aren't expected to exceed revenue until 2019. And it will be another decade beyond that before the Social Security Trust Fund is exhausted.

And yes, despite the bonanza that many investors have enjoyed in the stock market, Social Security is still looked upon by most retirees as a critical slice of their income. Indeed, monthly Social Security checks are the major source of income for 42% of people age 65 and older.

It depends, however, is the answer to the two most frequently asked questions about Social Security: When should I begin drawing my benefits? And does it pay to keep working while drawing Social Security?

First, the rules: Currently, full benefits are available at age 65. (For those born in 1938 and after, the qualifying age for full benefits gradually increases, in roughly two-month increments, to age 67.) Partial benefits are first available at age 62, but your monthly check will be permanently fixed at only 80% of what you would have received at age 65. (For an estimate of how much you would receive upon retirement, call the Social Security Administration at 800-772-1213.)

Financial planners offer several possible reasons to begin drawing benefits sooner rather than later:

- If you're in poor health or need the money, take the benefits immediately.

That's what Charles L. Jetton did. Now age 78, the former director of administrative and business services at Memphis State University in Tennessee retired early, at age 64, when his doctor discovered what appeared to be a serious vision problem. Mr. Jetton immediately began drawing Social Security. "I wanted to enjoy my retirement as much as I could," he says today, "and I didn't know how many years I had left." His eyes, as it turned out, never developed any problems.

- If Social Security checks spell the difference between drawing upon and not

drawing upon tax-deferred investments, again, consider taking the benefits immediately. The longer you can go without tapping such investments, the longer those funds can enjoy tax-deferred growth.

- If you do the math -- calculating, for instance, the number of years (and monthly checks) that you would need starting at age 65 to break even with the 36 additional checks received starting at age 62 -- the numbers seem to argue for collecting benefits early. Indeed, a dozen or so years would have to pass for many retirees to make up the difference.

But if you've reached age 65, chances are you're going to live a lot longer than 12 more years.

One scenario in which waiting for full benefits might make sense is if you provide the bulk of the income for your household, and your spouse is younger. If you take early -- and, thus, reduced -- benefits at age 62, your spouse could end up with a reduced survivor benefit upon your death.

As far as working while drawing Social Security, it might not pay to do so, at least before age 70.

If you have earned income (as opposed to investment income) after you begin collecting Social Security under current rules, you will lose $1 in benefits for every $2 earned in excess of $8,640. That's for people age 62 to 64. For people age 65 to 69, you lose $1 in benefits for every $3 earned in excess of $13,500.

Mr. Slott, in New York, looks at it this way: 6.2% of your paycheck will be withheld for FICA, and 1.45% for Medicare. That's a total of 7.65%. Then, add the 50% loss of benefits (for those age 62 to 64) and you wind up with an effective tax rate of 57.65%. And that's before figuring the income tax on those wages.

Once you hit age 70, however, there's no loss of benefits -- regardless of how much money you make.

Insurance Needs

Simply put, it's a minefield.

Life insurance, life-insurance trusts, second-to-die policies, long-term care insurance, Medicare, Medigap, managed care: Each of these products or services

insurance, Medicare, Medigap, managed care. Each of these products or services can help provide security during retirement -- and just as easily drain thousands of dollars from one's wallet or estate.

Consider that the premiums for Medicare supplemental, or Medigap, insurance, which helps cover deductibles, co-payments and other out-of-pocket expenses not paid for by Medicare, increased an average of 13% in 1996 at the American Association of Retired Persons, the nation's largest provider of such policies. Annual premiums for some of the organization's most popular policies have hit about $1,200.

There's little question as to the value of insurance -- when used properly. It's just that retirees, more concerned than most with protecting their assets, their health and their heirs, are sometimes more willing to buy and carry products that they don't really need.

Start with life insurance. Is that important in retirement? Often, the answer is no. "The purpose of life insurance is to replace the earnings power of a life." Mr. Hopewell explains. "If a life isn't earning anything anymore, there's nothing to replace."

None of which stops people from carrying the stuff. Much of it is borne out of decades of habit, according to financial planners; a person simply continues to pay the premiums, earmarking the payout for, say, a funeral or a loved one, when, in reality, an IRA or other retirement fund has more than enough money to accomplish either or both of those goals.

Life insurance can help with estate planning. If an estate's assets are fairly illiquid -- comprising, say, land or buildings or even a small business -- a life-insurance policy can be used to pay the federal taxes on such assets without the need to sell the assets themselves at fire-sale prices.

Medical insurance, for most retirees, means Medicare. Earlier this year, Congress appeared ready to raise premiums for upper-income elderly and to raise the eligibility age for Medicare. In July, though, both provisions were abandoned in the final debate over the budget bill. Medicare beneficiaries will see their monthly premiums rise in the next five years -- to $67 in 2002 from about $45.70 in 1998.

One of the biggest insurance decisions facing retirees in the months and years to come is whether to join a Medicare HMO, or health-maintenance organization. These rapidly growing managed-care plans, which now cover about 13% of Medicare participants, often save money on premiums, have few out-of-pocket costs, and frequently provide benefits not offered by standard fee-for-service programs, such as eyeglasses and prescription drugs.

The drawbacks, of course, involve a limited choice of physicians; participants normally must choose from caregivers within the HMO network. What's more, there is little in the way of long-term data to indicate whether the savings gained from joining an HMO are enough to justify the loss of doctor choice and, possibly, diminished health-care quality. The best advice: If you plan to take the leap, keep your Medigap insurance -- at least for several months. Once abandoned, such policies, particularly for retirees with health problems, might be difficult to get back if you decide to return to a fee-for-service plan.

IRAs and MRDs

Where have you gone, Wilbur Mills?

Mr. Mills, to refresh memories, was chairman of the tax-writing House Ways and Means Committee from 1958 to 1975. As such, he established himself as one of the most powerful congressional leaders of this century. Yet during his era, tax laws themselves, at least the big ones, remained fairly comprehensible, and they changed infrequently, perhaps once every 10 to 15 years.

Starting in 1976, however, and almost every two or three years since, Congress has seen fit to tinker with tax statutes. The worst of that tinkering has created the rules that govern IRAs and minimum required distributions, or MRDs -- the mandatory withdrawals that some retirees must make from these accounts.

The problems arise not so much with the accounts themselves as with how to tap them. Withdraw too little or too much -- and withdraw it too early or too late -- and you can wind up, as Mr. Slott in New York notes, with penalties ranging from 10% to 50% of the amount withdrawn.

"Congress tried to make this as confusing as possible," Mr. Slott says, "but this is the best they could do."

Let's start with IRAs. In short:

- Before age 59 1/2, any amount withdrawn is subject to a 10% penalty, on top of income taxes.

- That said, people younger than 59 1/2 can avoid that penalty and still withdraw funds from an IRA by receiving "substantially equal payments." In this method, the payout is a fixed amount, based on life expectancy, divided over five years or until you reach age 59 1/2, whichever is longer. Again, income taxes are due on any withdrawal.

- People who are 59 1/2 or older can withdraw funds without penalty -- not even the 15% excise tax that previously was levied on annual payouts of $160,000 or more. The new tax laws have eliminated that penalty.

"It's bad enough that you need a professional to help you with these questions and decisions," says Mary Malgoire, a financial planner in Bethesda, Md. But "if you think it's complicated now ... just wait until you hit 70 1/2."

That's when you enter the MRD maze. There are three methods for determining the size of your mandatory withdrawals: the recalculation method, the term-certain method and the hybrid method (a mix of the first two). Each revolves around life expectancy.

The ultimate choice is best made with the help of a financial planner, tax lawyer or accountant; the key, however, is to recognize that once you select a method, you can't change it, and each method can yield significantly different amounts of money that must be withdrawn each year.

The wrong decision can cost you. Let's say that, under the term-certain method, you're supposed to withdraw $30,000 from your IRA this year, but you take only $10,000. The IRS will penalize you a whopping 50% of the additional amount you should have withdrawn: in this case, 50% of $20,000, or $10,000. There used to be a penalty for withdrawing too much, as well -- 15% of amounts over $160,000. But again, Congress recently eliminated that penalty.

Should you now take advantage of the death of the 15% excise tax and start pulling out gobs of money from your IRA? Your financial planner might not be happy with the decision; obviously, removing large amounts of money from your

managed assets means that your planner -- if paid a fee based on a percentage of those assets -- would receive less.

The easy answer is: It depends on your needs (a vacation home?) and tax considerations.

Mr. Slott cites the example of a client with more than $3 million in his IRA. "He'll never use it all," Mr. Slott says. Thus, the client is beginning to withdraw large amounts and is giving portions of it to members of his family, thereby reducing the size of his estate, as well as any eventual tax bite.

"So what if you have to pay the income taxes [on the withdrawals] now," Mr. Slott says. "You could still come out ahead by leveraging those dollars outside the estate."

The Worst-Laid Plans

What are some of the biggest mistakes and false assumptions people make when they approach retirement? Financial planners name a few doozies:

UNDERESTIMATING THE ROLE of inflation and longevity. Most people are, or say they are, aware of the corrosive effects of inflation on their investments. Too often, however, they don't grasp how large inflation might be in the future.

The 2%-plus annual inflation rates of recent months would appear to be an anomaly; the average annual rate of inflation during the past decade was 3.7%; during the past 20 years, 5.2%. At a rate of 5% inflation, $1,000 today would buy only $614 in goods and services in just 10 years.

Longevity goes hand-in-hand with inflation. Many retirees grossly underestimate how many years they are likely to live. Consider: A man who reaches age 65 can be expected to live an additional 16 years; a woman who reaches 65 is likely to live an additional 19 years.

The lesson: A good retirement plan should assume that you will last to at least age 90, if not longer. Your finances should do the same.

MISHANDLING A LUMP-SUM transfer to an IRA. The 20% tax on these mishandled transfers affects more people than any other penalty.

Remember: If you are receiving a pension distribution from your employer, the IRS will levy a 20% tax on the amount -- unless you arrange for a trustee-to-trustee transfer. That's one in which your company sends a check directly to the IRA rollover account.

The lesson: Make sure a lump-sum check isn't made out to you. Unfortunately, some companies still do that automatically, unless you tell them otherwise.

ASSUMING THAT TAXES go away. One of the more interesting questions that Mr. Kelley at Ayco Co. says he receives in conducting retirement seminars goes as follows: At what age do I stop paying taxes? He then breaks the bad news: You don't.

"Some people get this 'entitlement mentality,'" Mr. Kelley says. "They think that, for some reason, they no longer need to pay taxes. The answer to the question, 'Why should I continue to pay taxes?' is: Because you continue to have income."

Indeed, some retirees -- when Social Security, pensions, 401(k)s and other savings are factored in -- find themselves in the same or nearly the same tax bracket as when they were employed.

The lesson: A good retirement plan will take into account the taxes you can be expected to pay, as well as how those taxes will change over time.

BEING TOO GENEROUS . Alan Parker, a financial planner at Raymond James & Associates Inc. in Atlanta, says retirees, when they get their lump sums from employers, are sometimes assailed by family members and friends with "wonderful business opportunities," like restaurants and car washes. Walk away. Quickly.

The lesson: The day you roll over your retirement funds "is a good time to have a cold heart," Mr. Parker says. "It's almost as if you shouldn't tell your family you have a nest egg."

UNDERESTIMATING MEDICAL-INSURANCE costs. Add it up: long-term care insurance, Medigap insurance, Medicare premiums. The total can put a sizable dent in a monthly budget. And the rules can change: Companies with a lifetime maximum (for medical bills) of $1 million or more for active employees will sometimes reduce that amount for retirees, says Mr. Kelley. The figure can go as

low as $200,000 to $300,000.

The lesson: Read your corporate and personal health-care policies with a magnifying glass.

To Move Or Not to Move

That is the question. The answer, though, is fairly surprising.

Yes, at some point, almost all would-be retirees consider picking up stakes and moving far away, and settling in, say, Arizona. But they rarely do.

Charles F. Longino Jr., a professor at Wake Forest University in Winston-Salem, N.C., in his book "Retirement Migration in America," notes that from 1986 to 1990, only 4.5% of people age 60 and older moved to another state. That figure, moreover, has been relatively constant since the 1960s. Of those who did move, 43% settled in just five states: Florida, California, Arizona, Texas and North Carolina.

Why so little activity? Most retirees appear to be most comfortable right where they are: close to friends, restaurants, stores, doctors and churches that they have known for years. Even moving closer to family, primarily grown children, isn't always as fulfilling as staying put.

Elmer A. Fitzgerald, 73, retired in February 1996 and moved to Richmond, Va., where his son and daughter-in-law and fiancee lived. That meant that Mr. Fitzgerald and his wife were leaving their home of 35 years in Clifton, N.J.

It was, he says today, "a mistake." Food prices are higher, Mr. Fitzgerald says; his property, almost five times the size of the one in New Jersey, takes up too much of his time; and even though Mr. Fitzgerald says he enjoys seeing his children, their visits with each other aren't as frequent as he imagined. "They have their own lives to lead," he says simply.

Now, the Fitzgeralds are getting ready to move again -- this time to Cleveland, where Mr. Fitzgerald was raised. His advice to retirees: "Think long and hard" before putting up the for-sale sign. "If you're going to move to another state, rent first."

Retirees who move but don't go far appear to have an easier time adjusting. Doris O'Malley, 67, retired last December from her job as a health-benefits administrator and promptly sold her house of 15 years in Wyckoff, N.J. She now lives in Barnegat, N.J., just 90 minutes south of friends and family (not to mention about 10 minutes from the beach).

"I wanted something smaller and more affordable," Mrs. O'Malley says today, "and this has worked perfectly. I have my new friends here, and my old friends just up the road."

Money Isn't Everything

Yes, a plump estate clearly can ease the transition from the office to retirement. But almost to a person, retirees and financial advisers caution that planning how you spend your time in retirement is just as important as planning how to spend your dollars.

"It's more than just money, even if you have enough," says Ms. Briaud, the financial adviser in Texas. "What's going to satisfy you each day? You could have 50 years [in retirement]; that's not unrealistic to think about."

Adds Ms. Lau, the financial planner in Delaware: "We talk money, but it's really a question of lifestyle. We work so hard to get to retirement -- but we forget to get ready for what we want to do afterward."

Or, even worse, plans are shattered by the unexpected. Years ago, Norm Lansing, now age 62 and living in Toms River, N.J., originally planned to retire at 60; he and his wife wanted to travel and see the country. In 1992, though, she died of cancer. The retirement, the travel plans -- "all that went out the window," Mr. Lansing says today.

The best advice from those who already have started the journey: Retire only if you have something to retire to. Mr. Ferguson in Maryland acknowledges today that his post-retirement plans were vague at best. "I played the old 'consulting game' the first year" after retiring, he says. "But that petered out pretty quickly."

At one point, Mr. Ferguson, who worked for Marriott for almost 20 years, had taken some courses at the local community college with the thought of opening his own travel agency. In the end, that particular idea "didn't make much sense,"

Mr. Ferguson says. But a seed had been planted. It was combined, as it turned out, with trips that he and his wife had taken in the late 1980s and early 1990s to Australia and New Zealand, a corner of the world that the couple fell in love with.

Today, Mr. Ferguson is a part-time travel agent, specializing in Australia and the South Pacific. He estimates that he spends a couple of days a week on his "paid hobby."

Retirement "is a dramatic change, and people don't realize that until they've been through it," Mr. Ferguson says. "You have to have some idea of what you want to do. Otherwise, you end up with no purpose in life."

Mr. Ruffenach, deputy chief of The Wall Street Journal's Atlanta bureau, served as contributing editor of this report.

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