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CHRIS SHARP

Turbulent Days Ahead For Bond Investors

Remember the early 1980s, when Pac-Man and MTV were brand new? That era also marked the birth of a bond-market bull run—a three-decade stretch of strong performance that taught a generation of investors to rely on bonds for steady income and portfolio stability.

Fade out the flashy Michael Jackson video. Much darker days are ahead for the bond market, fixed-income experts say, and they'll pose particular challenges for older investors relying on bonds to cover expenses.

Yes, it's "bad," and not in that cool King-of-Pop way. Bond investors are facing rock-bottom yields, the threat of rising interest rates (which mean falling bond prices), longer-term inflation and the ongoing European debt crisis. Professional investors and advisers don't express unmitigated enthusiasm for any segment of the bond market. Low yields on many of the safest bonds virtually guarantee that investors will lose money, after inflation, and yields on more-exotic debt generally aren't high enough to compensate investors for their additional risks.

Yet bonds remain a valuable source of income and portfolio diversification—and an essential part of most older investors' portfolios. When U.S. stocks post steep declines, Treasuries and investment-grade corporate bonds tend to notch modest gains, cushioning the blow for balanced portfolios. And investors can tweak their fixed-income portfolios to safeguard against some of the biggest bond-market risks, such as rising interest rates, while accepting some of the smaller risks, such as sluggish returns that won't always keep pace with inflation.

Thanks to the Federal Reserve's unprecedented efforts to strengthen the economic recovery by keeping

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rates low, bond investors are navigating uncharted territory. The Fed said in early May that it would keep its short-term interest-rate target at 0% to 0.25% and continue buying bonds at a pace of $85 billion a month—an effort aimed at driving down longer-term rates. "This is very unlike any market we've seen before, because the starting level of interest rates is so low," says Mark Egan, lead manager for Scout Funds' fixed-income portfolios. With bond yields offering investors so little cushion against losses, he says, "you don't need to have this idea that inflation will rage or interest rates explode to be very fearful of the bond market."

Indeed, most market watchers expect a gradual increase in interest rates, not a big spike, but even modest moves could trigger losses in bond portfolios.

Although inflation currently looks modest—1.5% for the 12 months ending in March—it's already higher than the yields on many "safe" bonds. And advisers see inflation picking up longer term as the Fed and other nations' central banks seek to jump-start economic growth with easy-money policies.

Advisers also fear that investors, who poured money into bonds in recent years, are unprepared for the bad times ahead—and will rush for the exits at the first sign of trouble. The Fed may signal a gradual withdrawal of its stimulus, "and everyone will interpret that as, 'I gotta get out of here,'" says Hugh Lamle, president of M.D. Sass, a New York investment-management firm. The stampede "can get a little bit panicky."

As the risks pile up, some retirees are avoiding bonds entirely. Gene Dettman, 63, dumped almost all of his bond holdings early last year, largely because of his concern about rising interest rates. Dettman, who retired from the information technology industry eight years ago and lives outside of Abilene, Tex., generally keeps six to 12 months' worth of living expenses in a bank savings account and periodically refills this cash bucket using stock dividends or by taking gains from his stock portfolio. His bond allocation, he says, is just 0.3%, invested in an intermediate-term bond exchange-traded fund. He plans to reevaluate his bond holdings after rates rise, but "they hit me right now as being a losing asset going forward," he says.

While many retirees may share Dettman's dim view of fixed income, dumping bonds completely probably isn't their best course. Here's how to recalibrate your bond portfolio for an era of heightened risk.

Dial Down Risk of Core Holdings

U.S. Treasuries and investment-grade corporate and municipal bonds form the bedrock of many retirees' portfolios. They're also expensive because many investors have stuck to these plain-vanilla holdings even as the Fed's bond purchases helped drive valuations higher. Now, several adjustments are needed to rein in the risk of these core holdings.

One major change: Advisers are reducing allocations to core bond holdings, shifting money into other fixed-income sectors. Litman Gregory Asset Management, for example, has slashed core bond holdings in its most conservative portfolios to roughly 20% of the total bond allocation, down from 70% or 80% several years ago, says Chris Wheaton, managing partner at the Larkspur, Cal., investment-management firm. The firm has shifted some money from core bond holdings to "unconstrained" bond funds that can invest anywhere in the bond market.

Advisers are also lightening up on any longer-term bonds, which are most vulnerable to rising rates. Many aim to keep "duration," a measure of interest-rate sensitivity, under five years—a bit shorter than the Barclays U.S. Aggregate Bond Index, a broad benchmark for core bond holdings. Generally speaking, for each 1% increase in interest rates, a bond's price will fall 1% for every year of duration. Check your bond fund's average duration by typing in the fund's name or ticker symbol

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From the Editor

At the end of the summer, many of you will begin to decide whether to apply for health care coverage under the new health care law. Starting on October 1, individuals who are not yet eligible for Medicare and want to buy health insurance on the individual market can submit an application to one of the new state-based exchanges. You can see the application at the Web site of the Centers for Medicare and Medicaid Services at http://cciio.cms.gov/resources/other/Files/AttachmentB_042913.pdf.

After you submit your application, you will see the amount of tax credit that you could be eligible for to help defray the cost of a policy offered on the exchange. If you already have coverage under an employer plan, you will not have to apply for coverage on the exchange.

Coverage kicks in by January 1. And private insurance companies have yet to say how much their policies will cost.

But it's not too early to get up to speed. For information on the health care law, go to **www.healthcare.gov**. Also, check out the Kaiser Family Foundation at **www.kff.org**.

Susan B. Garland, *Editor*

at Morningstar.com and clicking the "portfolio" tab.

Despite longer-term concerns about inflation, many advisers are also avoiding Treasury inflation-protected securities. TIPS, whose principal is adjusted to keep pace with inflation, are currently offering negative yields on maturities up to ten years. For protection against inflation, "we'd rather be in commodities and other real assets," says John Workman, chief investment strategist at Convergent Wealth Advisors. Investors already holding TIPS or TIPS funds might consider taking some profits but maintaining a moderate long-term allocation to these bonds—since inflation is likely to be a bigger factor down the road.

Many fund managers say they're still finding value in mortgage-backed securities—both "agency" MBS issued by government-sponsored enterprises, such as Fannie Mae or Freddie Mac, and non-agency MBS issued by banks and other private lenders. Bond funds with a strong track record investing in mortgages include **TCW Total Return Bond** (TGLMX) and **DoubleLine Total Return Bond** (DLTNX).

Choosing Core Bond Funds

When choosing plain-vanilla bond funds, remember that many core-fund managers have wandered well outside their traditional boundaries, dipping into riskier high-yield "junk" bonds, emerging-markets debt and other holdings (see "Seeking Yield, Bond Funds Ramp Up Risk," April). Such funds may be a fine option, but you'll want to avoid loading up on those riskier sectors elsewhere in your portfolio. Keep tabs on the funds' quarterly disclosure of portfolio holdings, found on fund companies' Web sites, and check the fund's "portfolio" page on Morningstar.com to compare its credit quality and sector weightings against its peers.

Because fund expenses reduce your returns, insisting on low fees is "the easiest and quickest way to increase your income," says Kent Grealish, partner at investment advisory firm Quacera, in San Bruno, Cal. He likes **Vanguard Intermediate-Term Investment-Grade** (VFICX), which focuses on high-quality corporate bonds and charges 0.2% annually, versus 0.9% for the average intermediate-term bond fund.

In addition to the lofty valuations found among virtually all core bond holdings, municipal bonds pose an additional challenge for investors: the shaky condition of many municipalities' finances. Still, with tax rates for wealthier individuals generally on the rise, muni bonds are going to continue to be good investments for high- or even moderate-income investors, Grealish says. To compare your after-tax yield on taxable bonds against muni bonds, use a tax-equivalent yield calculator such as the one at Bankrate.com.

To keep a lid on volatility and avoid overexposure to financially shaky issuers, look for high-quality, broadly diversified muni-bond funds. Such funds include **Fidelity Intermediate Municipal Income** (FLTMX) and **Vanguard Intermediate-Term Tax-Exempt** (VWITX).

Given the threat of rising rates, retirees may be tempted to buy individual bonds instead of bond funds. But this approach poses challenges for small investors. Researching an issuer's credit quality is complex, buying and selling individual bonds involves considerable transaction costs, and most small inves-

tors don't have the assets to build the well-diversified portfolios that bond funds typically offer.

But new funds being launched in both the taxable-bond and muni-bond categories may help investors manage the risk of rising interest rates. A "defined maturity" bond fund invests primarily in bonds maturing in a particular year—and when that year rolls around, it will liquidate and return assets to investors.

Investors can use these products to build a bond-fund "ladder," perhaps choosing funds with maturity dates two, four, six and eight years in the future. As each fund matures, the investor can reinvest that money and extend the ladder—minimizing the risk of being stuck in low-yielding bonds as rates rise. Defined-maturity bond funds include the **Guggenheim BulletShares Corporate Bond** exchange-traded funds, with maturity dates ranging from 2013 through 2020, and **Fidelity Municipal Income** funds, with maturity dates from 2015 through 2023.

Higher Yield, Higher Risk

High-yield bonds, issued by companies with lower credit ratings, are barely living up to their name these days. The yield on a broad U.S. high-yield bond benchmark touched new record lows below 5% this spring.

Many advisers are reining in junk-bond allocations and leaving high-yield investment decisions in the hands of multi-sector or go-anywhere bond fund managers. One such fund favored by advisers, **Loomis Sayles Bond** (LSBRX), held about 20% of assets in high-yield bonds at the end of March. The fund has pulled back from the sector a bit but still sees opportunities in certain areas such as health care and technology, says co-manager Elaine Stokes. What's more, "we expect the default rate to stay relatively low" among high-yield issuers, Stokes says.

Investors fearing rate increases have flocked to floating-rate funds, which typically invest in bank loans made to corporate borrowers, often those with lower credit ratings. Rates on these loans "float" in line with changes in a benchmark short-term interest rate, helping to protect investors from the losses typically associated with rising rates.

But these funds can behave more like stocks than bonds. In 2008, for example, when Standard & Poor's 500-stock index dropped 37%, the average bank-loan fund lost 30%, according to Morningstar. Keep floating-rate fund allocations modest, and choose funds that have proven adept at controlling risk, such as **Fidelity Floating Rate High Income** (FFRHX) or **Eaton Vance Floating Rate** (EABLX).

Looking abroad, given the European debt crisis, other developed markets seem to offer little comfort to bond investors seeking stability and decent yields. While there are still some opportunities in Europe, particularly among larger corporate issuers, "they're not as prevalent as they have been," says Stokes.

Emerging-market countries, however, "are in better fiscal shape and have better growth prospects" than developed markets, says Convergent's Workman. "You gain much better yields, and you also have the potential tailwind of strengthening currency" versus developed-market currencies, he says. The average emerging-markets bond fund yields 4.1%, according to Morningstar. And unlike U.S. bonds, emerging-markets bonds have strong potential to benefit from interest-rate decreases in those countries, Litman Gregory's Wheaton says.

The potential for emerging currencies to strengthen against the U.S. dollar helps make the case for local-currency emerging-markets bond funds such as **Pimco Emerging Local Bond** (PLBDX), advisers say. (Many other emerging-markets bond funds invest in dollar-denominated bonds, removing the potential benefits—and risks—of currency fluctuations.)

Such holdings should be limited to roughly 4% or 5% of the total portfolio, Wheaton says, and investors should expect their behavior to more closely mimic stocks than bonds. "In a panic, those emerging-market bonds will get hit pretty hard," he says.

Sifting through these dicey segments of the bond market is a tough job that has become even tougher in a high-risk, low-return world. Investors who would rather leave that work in the hands of professional investors might consider unconstrained bond funds, which can invest in any type of bond and have a lot of flexibility to dial allocations up and down. These funds may also move their average duration into negative territory—allowing them to profit when interest rates rise. In the **Pimco Unconstrained Bond Fund** (PUBDX), for example, duration can range from negative three years to positive eight years. In the **Scout Unconstrained Bond Fund** (SUBFX), duration stood at negative 2.7 years at the end of March.

Given the bond-market headwinds, investors must "err toward the side of being cautious," says Scout's Egan. As for his own funds, he says, he'll settle for modest returns while waiting for market conditions to improve, "and hopefully sidestep the damage." K — **ELEANOR LAISE**

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MANAGING YOUR FINANCES

Avoid Pitfalls When Tapping Annuities

VARIABLE ANNUITIES have become a huge business, holding more than $1.6 trillion in assets. Many of these annuities include guaranteed lifetime withdrawal benefits, which promise you'll receive a minimum amount of income each year for life, no matter what happens to your original investment.

For most variable annuities with guarantees, you invest a lump sum in mutual-fund-like accounts within the annuity, and the value can grow with the investments. Most people buy these annuities in their fifties and sixties, and they let them grow tax-deferred for several years before starting to tap the account.

Every year, you pay fees just to preserve the income guarantees—perhaps $17,000 over ten years for a $100,000 account. With the newest generation of products, you still have access to the underlying investment.

But if you make a wrong move when you withdraw the money, you could forfeit the guarantees. Here's how to avoid variable annuity mistakes.

■ **Switching to a new annuity.** Guarantees on variable annuities sold in the late 1990s to mid 2000s tend to be much more valuable than guarantees on versions sold today. Some of the older annuities let you withdraw as much as 6% a year from the highest value the account reaches. After the market downturn in 2008, insurers began to reduce their risk on new annuities by boosting fees and lowering annual withdrawals to 5%.

Many of the older annuities work like this: Say you invested $100,000 in a variable annuity with a 6% annual guaranteed withdrawal benefit. The market value of your investments rises to $130,000 but later drops to $80,000. Your guarantee will be calculated on a $130,000 "guaranteed value" rather than on the actual "account value." An annual withdrawal of $7,800 for life would be based on the guaranteed value. Some annuities promise that the guaranteed base will double if you wait ten years before withdrawing any money, no matter what happens to the actual investments.

These old annuities can be a great deal, so be wary of any broker who wants you to switch out to buy a new product. Consider the source: Salespeople make new commissions when you buy a new annuity.

A big downside to switching: In the example above, you would only get the $80,000 account value from the old annuity, not the $130,000 guaranteed value. "The guaranteed amounts never transfer over," says Michael Bartlow, an adviser for financial planning company VALIC, which sells annuities, in Hickory, N.C. "People need to take the time to figure out what they're walking away from."

Also, it's unlikely that any annuity you may buy to replace it will offer a 6% guarantee, and you may have to pay a large surrender charge if you switch.

■ **Not making the most of the guarantees.** If you're paying from 0.95% to 1.75% a year in fees just for the guarantee, then you should invest that money more aggressively than your investments without guarantees. You take a risk with aggressive investments, such as growth stocks, but you could reap big gains. Remember, the lifetime guarantee is often based on the highest value the investments reach. So even if your investments take a hit for a few years, you'll have a guaranteed floor. And when the market rebounds, your guaranteed value will rise as well.

Mark Cortazzo, a certified financial planner in Parsippany, N.J., who helps advisers and individuals analyze annuities, says that annuity owners shouldn't waste the guarantee. "If somebody has $100,000 to $200,000 in an annuity with an income guarantee, they're spending thousands of dollars a year in protection," he says.

And annuity owners should coordinate their annuity investment strategy with their other investments, Cortazzo says. In 2000, after his first wife died, Bryan Davis invested in a Nationwide variable annuity that didn't have an income guarantee. After retiring as a middle-school physical education teacher, Davis moved from New York to Arizona. He bought a Sun Life annuity in 2010, which lets him withdraw 5% of the guaranteed value every year. Neither salesperson asked about his other investments, says Davis, 62. "They just wanted to make money off me," he says.

Davis's current financial adviser asked Cortazzo to

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analyze the annuities. Cortazzo concluded that Davis's investments were totally wrong for the types of annuities he held. The annuity without the guarantee was invested primarily in stock funds, while most of the annuity with the guarantee was invested in a balanced fund.

Cortazzo recommended switching the Sun Life annuity into about 70% stocks. He then shifted some money in the Nationwide annuity from an aggressive small-company stock fund into a fixed account that pays a minimum of 3% interest. (Cortazzo's firm, MACRO Consulting Group, will review up to three annuities for $199. Go to www.annuityreview.com.)

■ **Withdrawing too much money.** The annuities with guarantees generally let you withdraw up to 5% or 6% of your guaranteed value each year. But taking more money can reduce the guaranteed value, which will reduce your future guaranteed payouts—sometimes by a considerable amount.

The result can vary by annuity. Cortazzo offers two hypothetical examples of how annuities change the guaranteed value if you withdraw too much. Both annuities have a $500,000 account value and a $1 million guaranteed value. You can withdraw 6% of the guaranteed value each year, for a withdrawal of $60,000.

If you withdraw an extra $5,000 just once, one of the annuities will reduce your guaranteed value to $990,000, and your annual withdrawal will be $59,400. The other will slice the guaranteed value to $500,000—and your annual withdrawal will drop to $30,000. The lesson: Make sure you understand the impact of extra withdrawals on your guaranteed base.

■ **Choosing the wrong beneficiary.** Cortazzo noticed another problem with Davis's annuities. Davis had remarried, and he had been paying for a joint-life guarantee that would continue the Sun Life payouts for as long as he and his wife lived. But instead of making his wife the beneficiary, the brokerage firm where he bought the annuity had named his IRA as the primary beneficiary. His wife could receive the account value after he died, but the lifetime income would stop. "A spouse who isn't the primary beneficiary on an annuity can't continue the contract," says Cortazzo.

Say your guaranteed value is $200,000 and you've been taking out 5% a year ($10,000), and the account now has just $40,000 in actual value. If your wife is the beneficiary on a joint-life annuity, she can receive $10,000 a year for life after you die. If she isn't the primary beneficiary, she'd only inherit the $40,000. Davis changed the beneficiary so his wife could receive the lifetime income. **K** —KIMBERLY LANKFORD

MANAGING YOUR FINANCES

Medicaid Planning Can Be Perilous

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LONG-TERM-CARE expenses can be staggering. So it's no surprise that many individuals would like to protect their hard-earned assets by looking to Medicaid to pick up the tab. Indeed, half of financial advisers say their clients have asked about giving all of their money to their children in order to qualify for government aid, according to a recent survey by Nationwide Financial insurance, which sells life insurance with long-term-care riders.

Such a strategy is not as easy as it once was—and it's fraught with risks in any event. So seniors must be careful before they embark on what's known as Medicaid planning. But there could be other steps—short of handing over money to kids—to protect some assets before, and after, you need nursing-home care.

Before an individual qualifies for Medicaid, the government health care program for the poor, most states require that a nursing-home resident spend virtually all of his or her assets, down to about $2,000. A spouse who still lives at home can keep the house, up to $115,920 in "countable" assets (such as stocks) and unlimited income. The federal government sets overall guidelines for Medicaid, but rules vary by state.

In the past, seniors routinely gave away property and money to family members in order to qualify for Medicaid payment of nursing-home expenses. Or they placed assets in irrevocable trusts, where they had access only to income from investments. Because of a

Congressional crackdown, however, you can no longer qualify for Medicaid if you give away assets during the five years before you apply for coverage. If you make gifts (or place the money in a trust) and then require nursing-home care within this "look back" period, you are ineligible for Medicaid for a certain period of time.

The length of the penalty period is determined by dividing the amount you gave away by the average monthly cost of a nursing-home stay in your state. Henry Levandowski, an elder law attorney in Havertown, Pa., offers this example. Say you made gifts of $100,000 and entered a nursing home before the five years are up. You spend your remaining assets to pay for your care, perhaps for several months, and then apply for Medicaid. With monthly nursing-home costs in Pennsylvania averaging around $8,100, you'd have to wait 12 months before you qualify, he says. In other words, the state won't cover your bills during the period that could have been paid for with the money you gave away.

This can come as a real shock to families. Often, the children who received the gifts have spent the money. The at-home spouse may need to take out a reverse mortgage to pay the bills. And in many states, including Pennsylvania, an adult child can be financially liable for a parent's nursing-home bills. "And the child doesn't have to be the person who received the transfer," Levandowski says.

Even if you're pretty sure you can beat the five-year look-back period, giving away assets or placing property in irrevocable trusts can be risky. If you don't wind up in a nursing home, for example, you may eventually need the money to live on. And, says Glenside, Pa., elder law attorney Robert Gerhard III: "You may not be able to get into the best nursing home. If you're not a private-pay patient, a nursing home doesn't have to let you in the door."

Protecting the Healthy Spouse

Still, there are moves you can make, especially if you're married, one spouse needs care and you want to protect the financial well-being of the healthy "community" spouse. Say a couple has $500,000 in mutual funds and cash when the husband enters a nursing home. The spend-down rules would protect $115,920 for the wife and $2,000 for the husband; the $382,080 balance would have to be spent before the husband is eligible for Medicaid. (Any of the husband's Social Security benefits or pension payouts would go to the nursing home.)

The wife can accelerate Medicaid coverage by dipping into the "excess resources" to pay off the mortgage, repair the roof or replace the heating system. Or perhaps she spends $15,000 to trade in the old clunker and buy a new car. "The car will now last longer," says Gerhard. "If she spent all the money on nursing-home care and she needed a car later, that $15,000 would come out of the community spouse's money."

Under federal law, the healthy spouse also can use part of the excess resources to buy a special type of irrevocable immediate-payout annuity. Because there are no income limits on the community spouse, this allows the spouse to transform a countable asset into an exempt income stream.

The federal rules regarding these annuities are strict. The period-certain term of the annuity must be based on the spouse's life expectancy, and she must name the state as the beneficiary in case she dies before the annuity's term is up.

Helen Cohn Needham, an elder law attorney in Falls Church, Va., warns that spouses must be careful if they consider one of these products. She says many brokers sell annuities that don't conform to Medicaid rules, and the purchase "comes back to haunt people." If the annuity doesn't pass muster, the state will consider the funds used to purchase it as a countable asset that must go toward the nursing-home costs, Needham says. By then, though, the money has been spent on the annuity, and the community spouse must come up with the cash to pay the nursing home.

If a husband and wife jointly own a home, it may make sense to transfer sole ownership to the community spouse. Otherwise, if the at-home spouse dies first, the survivor in the nursing home becomes the full owner. The state could then force the house's sale to cover Medicaid nursing-home payments. If the at-home spouse becomes the full owner and dies, the state can claim just one-third of the house's value to cover the cost of care. The rest can go to heirs.

The family house may also be exempt from Medicaid asset-recovery efforts if an adult child lives in the house for two years to care for an ill parent. "As long as you can verify that you kept a parent out of a nursing home, it's an exempt transfer," says Gerhard. The child gets to keep the house.

All of these Medicaid planning strategies carry significant financial and legal risks. You should seek the help of an elder law attorney to design an effective strategy. To find one, go to the Web site of the National Academy of Elder Law Attorneys (**www.naela.org**). **K**

—**SUSAN B. GARLAND**

MANAGING YOUR FINANCES

Review Benefits If You Return to Work

YOU'VE RETIRED, but now you have a chance to go back to work. Perhaps an intriguing opportunity has come your way, or you need to bolster your portfolio. Whatever the case, returning to the workplace can have an impact on the retirement income benefits you're currently receiving. Here's what you need to know before you "unretire."

■ **Social Security.** If you have already claimed Social Security benefits but are younger than full retirement age (66 for those born between 1943 and 1954), your benefits are subject to the "earnings test." For every $2 you earn above the annual limit—$15,120 for 2013—the government will withhold a dollar of benefits. The limit is higher in the year you turn full retirement age: In 2013, you will forfeit $1 of every $3 you earn above $40,080, up to the month of your birthday. After that, your income has no impact on benefits. "You can earn as much as you want," says Chris Chaney, vice-president at Fort Pitt Capital Group, in Pittsburgh, Pa.

The benefits you forfeit are not lost forever. At full retirement age, the government will increase your benefit to take into account the benefits that were withheld. For example, if you took benefits at 62 and forfeited 12 months' worth of benefits, at full retirement age the government will recalculate your benefit as if you claimed three years early instead of four years.

Bob Santucci of Carrollton, Va., waded through the complexities of the earnings test when his wife was offered a supervisory job in 2008 about six months after starting her benefit at 62½. Her benefit took a hit for several years. But this year, the Social Security Administration notified his wife by letter that her benefit would be adjusted upward—by about $35 a month. "At that time, you are giving it up, but you do get it back at 66 for the rest of your life," says Santucci, 68.

Be sure to let the Social Security Administration know that you've returned to work. Otherwise, if your tax return shows earnings that should have triggered reduced benefits, you'll either have to pay back the excess in a lump sum or take a cut in future benefits.

Working can increase your benefit if your new salary places you in one of your 35 highest earning years, which is what a benefit is based on. The government will annually refigure a benefit, even if you already started benefits. The salary also will boost the benefit of anyone who had no income during one or more of those 35 years.

You have two options if you want to stop benefits while you're working. Within 12 months of first claiming, you can file to "withdraw your application" for benefits. You will need to repay benefits you already received, but you can restart your benefits later—as if you had never applied. You'll also have to repay any spousal benefits. If you've passed the 12-month window, you can suspend your benefit, as long as you've reached full retirement age. You can then delay restarting your benefit to as late as 70, earning delayed retirement credits of 8% a year.

■ **Retirement accounts.** You can boost your tax-advantaged retirement nest egg if you return to work. Because you have earned income, you can contribute up to $6,500 in 2013 to a traditional IRA if you are 50 or older. You also can contribute the same amount to an IRA for a nonworking spouse as long as your earnings cover the contribution.

Once you hit 70½, however, you can no longer contribute to a traditional IRA and you must start taking required minimum distributions, even if you are working. If you fall under the income ceiling (up to $188,000 for joint filers and $127,000 for singles), you can contribute to a Roth IRA. There is no cap on a person's age for contributing to a Roth and no RMDs.

If your employer has a 401(k) plan, you can contribute up to $23,000 a year if you are 50 and older. While you're working, you won't have to take an RMD from that 401(k), even if you're 70½ or older, as long

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as you don't own 5% or more of the company. You will have to take RMDs from 401(k)s held by former employers, though. If your current 401(k) plan allows it, you could roll money from other 401(k)s or IRAs into your current 401(k) to avoid RMDs, says Travis Sollinger, director of financial planning at Fort Pitt Capital. However, you would be restricted to the investment choices that your current 401(k) plan offers.

Those who return to work through self-employment can turbocharge their nest egg. The self-employed can open a SEP IRA or a solo 401(k), either of which lets you stash up to $51,000 in 2013. Those 50 or older can sock away an additional $5,500 in the solo 401(k). At 70½ or beyond, you can still contribute to a SEP IRA but you must also take RMDs from it.

■ **Annuity and pension payments.** Monthly payouts from an immediate or a variable annuity will continue when you return to work. However, if you're just taking periodic withdrawals from a variable annuity's investment portfolio, you do have the flexibility to stop taking those distributions, says Joseph Heider, managing principal of the Ohio Region in Rehmann Financial's Westlake office.

Pension payments from former employers will continue if you're working for a new company. But payments could stop if you're returning to your former employer. "Definitely make an inquiry before going back to work," says Rebecca Davis, legal director for the Pension Rights Center.

Generally, if you return to an employer, the company will suspend your pension. If the plan is still in operation, you may receive actuarial increases. When you re-retire, you could end up with a higher monthly payment. If the pension plan is frozen, you won't earn additional service credits, but you can restart your existing pension once you leave the company for good, Davis says.

Pension plan rules snared a client of Davis's who worked for nearly 30 years for IBM in the U.S. The client, who asked not to be identified, says that after leaving his job with IBM, he tried to collect his pension. But because he had gone to work for a subsidiary in Latin America, he was considered to still be working for IBM, and, he says, the plan rules would not allow the company to "double pay" him.

Although he couldn't take his pension, "it worked out well for me—I was making a bit more than in the U.S.," says the client, 69. After about two years in Latin America, he retired and started his pension immediately. K —RACHEL L. SHEEDY

INVESTING

Bright Stars in the Mega REIT Galaxy

THE BIGGER an enterprise, the tougher it can be to grow at a fast pace. The ten largest property-owning real estate investment trusts by total stock market value (excluding health REITs) over the past year have returned 17.7%, on average, compared with the NAREIT index's 21.3%.

Today, many famous REITs look too big to be high-growth investments but yield too little to shine for income. But income investors can still find opportunities. Here are some of the brighter stars.

■ **Simon Property Group** (symbol SPG, recent price $180, yield 2.6%). This mall operator is one of five REITs whose credit rating starts with an A (Standard & Poor's gives it an A-; Moody's rates it A3). In March, it sold five-year notes at 1.5%, "the lowest coupons ever printed by a REIT," Chief Executive Officer David Simon boasts. The money is earmarked for renovations and expansions. Among all mega REITs, Simon has the best shot at prolonging excellent returns.

■ **American Tower** (AMT, $83, 1.3%). The cell-phone infrastructure builder is second only to Simon in REIT market value, at $32 billion. Its one-year return through May 10 was 24.4%. The yield is puny, but there's grand potential as American Tower becomes World Tower, with projects in Brazil, Colombia, Ghana, India and Uganda. It also pledges to raise dividends 20% a year for five years.

■ **Health REITs.** The vital signs are good in health REITs, as bulls reason that the medical share of the economy, including offshoots such as assisted-living communities, is likely to grow. The big three, Ventas (VTR, $80, 3.4%), HCP (HCP, $52, 4.0%) and Health Care REIT (HCN, $76, 4.0%), all trade at more than 1.5 times net asset value. That kind of valuation could be alarming elsewhere in REITdom. But medical rents are higher as a percentage of property values than in retail, offices or apartments. These three REITs are all expanding vigorously. And their good dividend yields alone make them keepers. K

—JEFFREY R. KOSNETT

Information to Act On

ECONOMY

■ **Housing gains.** The housing sector should add at least half a percentage point to gross domestic product this year. Expect sales of existing homes to climb 7.5% from 2012's 4.6 million–the first time in five years that sales will reach the 5 million mark. New home sales will rise 36% this year, compared with 20% in 2012.

INVESTING

■ **Social media.** The Securities and Exchange Commission recently clarified that companies can use social media, such as Facebook and Twitter, to announce key information as long as the company alerts investors to which social media it will use. The SEC says the regulation is intended to ensure that all investors can gain access to information at the same time.

TAXES

■ **Amended returns.** If you filed a Form 1040X to fix an error on your tax return, you can check the status of it using the "Where's My Amended Return?" online tool at IRS.gov. The status should be available three weeks after you mailed the return.

■ **Tax comparison.** The Tax Policy Center's online calculator lets you see how your tax bill might fare under three different versions of the tax law. Go to http://calculator2.taxpolicycenter.org/index.cfm.

■ **State income tax.** At $1,864, New York ranks highest for state income tax collection per capita, based on 2011 data according to the Tax Foundation. Connecticut is second at $1,808. Of states that levy an income tax on wages, Arizona collects the least per capita at $444, and Mississippi, at $487, comes in second.

TAX TIP
Premium Deduction Up

If you have long-term-care insurance, you can deduct more of the premiums you pay as a medical expense in 2013. Taxpayers 71 and older can claim up to $4,550; those age 61 to 70, $3,640; and those age 51 to 60, $1,360. You can deduct medical expenses that exceed 7.5% of adjusted gross income if you're 65 and older, and 10% if younger.

HEALTH CARE

■ **Dementia costs.** It cost between $159 billion and $215 billion to care for people older than 70 with dementia in 2009, according to RAND and the University of Michigan. Dementia care costs are more than the costs for heart disease and cancer. As the number of older people increases, care costs will rise dramatically, the researchers say.

CONSUMER INFORMATION

■ **Complaint database.** You can now view more than 90,000 complaints in the Consumer Financial Protection Bureau's complaint database. Complaints cover credit cards, mortgages, student loans, bank accounts and services, and other consumer loans. View the database at www.consumerfinance.gov/complaint database. File a complaint at www.consumerfinance.gov/complaint or by calling toll-free at 855-411-2372.

■ **Deleting accounts.** Getting rid of online accounts can be difficult. If you aren't sure how to delete an account, DeleteYourAccount.com and AccountKiller.com have compiled deletion information for many Web sites.

■ **Mobile site.** The Social Security Administration has launched a mobile-friendly version of its Web site for smart-phone users. Type www.socialsecurity.gov into a phone's Web browser. You can access such features as a mobile version of Social Security's Frequently Asked Questions and a mobile field office locator, which can provide turn-by-turn directions to the closest office.

BANKING

■ **ATM fees.** Average ATM surcharges rose 20% in five years, according to the U.S. Government Accountability Office. The average fee hit $2.10 in 2012, from $1.75 in 2007. Fees ranged from 45 cents to $5 in 2012.

RETIREMENT PLANNING

■ **Debt up.** The average debt for families headed by those 75 or older more than doubled, to $27,409 in 2010, from $13,665 in 2007, according to the Employee Benefit Research Institute. The percentage of families having debt rose to 39%, from 31%.

■ **Find a lost pension.** The Pension Benefit Guaranty Corp. has updated *Finding a Lost Pension,* which pro-

FROM LEFT: ISTOCKPHOTO/THINKSTOCK (2); HEMERA/THINKSTOCK

vides guidance to track down a pension plan or former employer. Download a free copy at www.pbgc.gov/Documents/Finding-A-Lost-Pension.pdf.

TRAVEL

■ **Airfare tool.** Looking for a good deal on airfare at a certain price, but open on the destination? Try Kayak.com's Explore tool (www.kayak.com/explore). Plug in key details, such as departure airport and your budget, and the tool will list affordable destinations.

RETIREMENT LIVING

■ **Top spots abroad.** For the fifth year in a row, Ecuador ranks as the best place abroad for retirees, according to InternationalLiving.com. The site's global retirement index ranks 22 countries on factors such as climate, real estate, health care and retiree benefits. Panama, Malaysia, Mexico and Costa Rica round out the top five.

■ **Senior discount.** People age 62 and older can get a lifetime pass for U.S. National Parks for $10 at recreation sites. To apply by mail, the cost is $20. The pass gives a senior access to more than 2,000 recreation sites and allows the pass holder a discount on some amenity fees. The regular cost for an annual pass is $80. Visit www.nps.gov/findapark/passes.htm for more details.

WORK

■ **Toolkit.** The U.S. Small Business Administration has developed a "50+ Entrepreneurs" toolkit that includes free online courses to help "encore" entrepreneurs start or grow a business. Go to www.sba.gov/encore.

■ **Work site.** AARP has launched a Web page consolidating information on jobs and starting a business. At www.aarp.org/workresources, you can find a job search engine and entrepreneurship resources.

SUBSCRIBER SERVICES

■ **Readers, beware.** A subscription renewal scam is victimizing Kiplinger and other publishers. Unauthorized agents are billing our subscribers for renewals and keeping the money. Don't make out a renewal check to anyone but Kiplinger, and mail it only to our fulfillment center in Harlan, Iowa.

Rates and Yields

Certificates of Deposit

SIX MONTHS	YIELD	PHONE NUMBER
Doral Bank (Fla.)	**0.88%**	855-513-6725
EH National Bank (Cal.)	**0.85**	888-392-5265
National Average	**0.16%**	
ONE YEAR	**YIELD**	**PHONE NUMBER**
Doral Bank (Fla.)	**0.96%**	855-513-6725
National Rep Bank/Chicago (Ill.)	**0.95**	312-738-4900
National Average	**0.25%**	
FIVE YEARS	**YIELD**	**PHONE NUMBER**
First Internet Bank of Ind. (Ind.)	**1.60%**	888-873-3424
Nationwide Bank (Ohio)	**1.60**	866-353-4291
National Average	**0.79%**	

Yields include compounding and are as of May 8, 2013. For information on deposit insurance, go to the Web site of the Federal Deposit Insurance Corp. (www.fdic.gov). SOURCE: Bankrate.com

Top Yielding Money-Market Funds

TAXABLE	YIELD	PHONE NUMBER
Selected Daily Govt/Class D*	**0.17%**	800-243-1575
Direxion U.S. Govt/Class A*	**0.08**	800-851-0511
Category Average	**0.02%**	
TAX-FREE	**YIELD**	**PHONE NUMBER**
Invesco Tax-Exempt Cash/Inv*	**0.09%**	800-659-1005
Alpine Municipal Money Fund/Inv*	**0.08**	888-785-5578
Category Average	**0.01%**	

*Fund is waiving all or a portion of its expenses. The 30-day simple yields are to April 29, 2013. SOURCE: *Money Fund Report*

High-Dividend Stocks

We used Kiplinger.com's stock-finder tool to screen stocks for at least five years of consecutive dividend increases.

DIVIDEND STOCKS	YIELD	SHARE PRICE
AT&T (T)	**4.8%**	$37
Lockheed Martin (LMT)	**4.5**	101
ConocoPhillips (COP)	**4.2**	63

Benchmarks

	THIS MONTH	3 MONTHS AGO	YEAR AGO
Inflation rate*	**1.50%**	1.70%	2.70%
Six-month Treasury	**0.08**	0.11	0.15
One-year Treasury (CMT)**	**0.11**	0.15	0.18
Ten-year Treasury	**1.82**	1.99	1.87

*Year-to-year change in CPI as of March 2013, December 2012 and March 2012.
**Constant Maturity Treasury yield.

Fixed Annuities

SINGLE-PREMIUM IMMEDIATE-ANNUITY MONTHLY PAYOUT FACTOR	HIGHEST	AVERAGE
Male age 65	$5.78	$5.31
Female age 65	5.25	4.94
Male age 70	6.60	6.14
Female age 70	6.91	5.64

Payouts are guaranteed to the annuitant for life, with a minimum payout period of ten years. Payout factors are per each $1,000. SOURCE: *Comparative Annuity Reports* (www.comparativeannuityreports.com). Data are to May 1, 2013.

FROM THE MAILBOX

Your Questions Answered

No Spousal Benefit Until Husband or Wife Files

Can a wife collect a Social Security spousal benefit at the time her husband is eligible to file for his benefit, even if he hasn't actually filed yet?

No. A wife cannot claim a spousal benefit based on a husband's record until the husband files for his benefit. (The same goes for a husband filing for a spousal benefit based on a wife's earnings record.) However, if a husband is at full retirement age (66 for those born between 1943 and 1954), he can file for his benefit and then suspend it. The wife can then file for a spousal benefit, and the husband can earn delayed retirement credits while waiting up to age 70 to re-file for his own benefit.

There is an exception in the case of a divorce: An ex-spouse—say, the wife—may take a spousal benefit when the ex-husband is eligible for benefits even if he has not filed. The marriage must have lasted ten years.

Benefit Can Rise With Extra Work Years

I am 66, and I plan to collect my Social Security benefit at age 70. If I continue working until then, will my benefit be different than if I retire at 66 and claim my benefit at 70?

It's possible. The Social Security Administration calculates your benefit using the top 35 years of earnings throughout your career. Working past full retirement age could potentially increase your Social Security benefit if any of those years are among your highest 35 years of earnings.

Take Your RMD Before Converting to a Roth

Once I am 70½ and take my first required minimum distribution, can I continue to convert my traditional IRA to a Roth? Also, can I convert with stocks and bonds I have in my traditional IRA, or do I have to sell my securities and then convert the cash?

There's no age limit for converting a traditional IRA to a Roth. However, you'll need to take your required minimum distribution first, and then you can convert any part of what's left to the Roth IRA. On the second question, you do not need to cash out the stocks and bonds first. You can move the securities into the Roth IRA in what is known as an "in-kind transfer." You will pay income tax on the value of the stocks or other assets on the date of the conversion.

Federal Retirees May Not Need Medicare

I am a federal retiree paying into the Federal Employee Health Benefits program for myself and my spouse. Do I have to enroll in Medicare Parts B and D?

The federal plan works differently from other employer-based health insurance. If you are enrolled in the Federal Employee Health Benefits program, you don't need to enroll in Medicare Part B for outpatient care or Part D for prescription drugs (or a private Medicare Advantage plan). You should sign up for Part A for hospital care because it's free. Part A becomes the primary payer for hospital bills, and the federal plan will fill in the gaps. However, you will still have to pay all co-payments, deductibles and co-insurance for your physician costs.

Private-sector retirees should enroll in Part B or Medicare Advantage within eight months after leaving their jobs. Any retiree health benefits they're offered will not pay for health services that Medicare would pay for.

Tax-Free Withdrawals From HSAs for Medical Costs

I'm about to enroll in Medicare, and I have a health savings account. I know that I'm not allowed to contribute to the HSA once I'm on Medicare. But when I turn 65, can I use the money in the HSA for anything? I have about $50,000 in the account.

You're right about Medicare and HSAs. You can't contribute to the account once you're covered by Medicare. However, you can withdraw money from the health savings account tax free to pay for medical expenses, such as deductibles, co-payments and long-term-care insurance premiums. You can even use the cash in the account to reimburse yourself for the money that Social Security withholds for Medicare Part B premiums. However, you cannot use the HSA assets tax free to pay for premiums for Medigap supplemental insurance. If you use the money to pay for non-medical expenses, you will owe income tax on the withdrawal, but you will avoid the 10% penalty that those under 65 would pay. There is no time limit on withdrawals, so let your account grow tax free for as long as you can. K

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INVESTING

Investing in Gold Is Losing Its Luster

FOR MANY years now, investors in gold seemed to have the Midas touch. Between 2008 and 2012, the value of gold increased dramatically, as is evidenced by the 101% surge in the federal Bureau of Labor Statistics' Producer Price Index for gold.

But now the shiny stuff has lost some of its luster. The price of bullion peaked in September 2011 at nearly $1,900 an ounce and since then the price has generally fluctuated between $1,500 and $1,800 an ounce. Then, a slew of worries—most having to do with the prospect of a global economic slowdown—sent gold prices falling in mid April to just below $1,400 an ounce. The price of an ounce of gold recovered to about $1,470 in early May.

Many analysts still predict that the price of gold will fall further, to $1,200 to $1,300 by year-end. Among the factors that could continue to weigh down gold: a strong dollar, a surging stock market and tepid economic growth around the world. If you intend to invest in gold, keep your expectations in check and keep the following guidelines in mind.

■ **Defense, defense.** Think of gold as a hedge against unexpected, catastrophic financial events. For example, the credit downgrade of U.S. debt and worry about a Greek default fueled a 44% rally in gold prices from February to September of 2011. Gold also worked as a hedge against inflation during the 1970s; the price of the metal rose to a high of about $600 an ounce in 1980, from $35 in early 1970. And some experts, including John Hathaway, co-manager of Tocqueville Gold Fund (symbol TGLDX), say that gold is a good defense during times of falling prices.

■ **A little bit goes a long way.** "Gold does nothing. It earns nothing; it doesn't pay a dividend," says Dan Denbow, co-manager of USAA Precious Metals and Minerals Fund (USAGX). Even so, many experts say a small exposure to gold—from 1% to 5% of your portfolio—can be a good long-term portfolio diversifier whether prices move up or down. That's because gold tends to move out of sync with stocks and bonds.

■ **You could start your own treasure chest.** Consider buying the actual metal in one-ounce coins, such as American Eagles, says Alec Young, global equity strategist at S&P Capital IQ. "Buy through a reputable dealer, one that's been around for 30 years and that's listed with the Better Business Bureau," he says.

You'll pay a premium when you buy and sell the pieces. But Young says you shouldn't pay more than a 5% to 6% premium to spot-gold prices when you buy, and you should accept no more than a 1% to 2% discount to spot prices when you sell. Store the coins in a safe-deposit box at the bank. "You don't need to buy a home safe, and you don't need to buy insurance," says Young.

On the day you buy, check the spot price of gold. You can find the price at many Web sites, including www.gold.org, which is the Web site of the World Gold Council.

■ **Invest in an exchange-traded fund.** Many so-called gold bugs have chosen to buy shares of an ETF, such as iShares Gold Trust (IAU), which tracks the price of gold by buying bullion. Note that the IRS considers gold a collectible, like a piece of art or a baseball card, and gives it special tax treatment. When you sell your shares, your gains will be taxed at your ordinary income rate, up to a maximum of 28%, if you have held the shares for more than a year—rather than at the favorable long-term capital-gains rate of up to 20%. If you sell your shares within a year of buying them, your profits will be taxed as ordinary income, at a rate of up to 39.6%.

■ **Gold stocks are riskier.** Prices of gold stocks are often more volatile than the price of the metal itself. For example, over the first four months of the year, the price of bullion declined 16%; by contrast, an index of the biggest U.S. gold-mining stocks plunged 36%. K —NELLIE S. HUANG

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RETIREMENT LIVING

Return to College Just for the Fun of It

YOU NEVER thought about going back to school—that is, until you retired. Now that you have time on your hands, you're searching for intellectual stimulation. Fortunately, a growing number of universities and colleges are offering academic courses that cater to the retiree seeking to learn something new.

Stanley Darer, 67, worked in finance for 35 years, and he wanted to explore anything except studying money. He has been taking courses on ballet and music at the Encore Program for Lifelong Enrichment at North Carolina State University since he retired six years ago. "I was ready for a liberal arts education," he says.

He has also been going to as many concerts and recitals as he can find. "Like most retirees, I was looking for things to keep busy, and I found it in senior learning," says Darer, who moved to Raleigh, N.C., from New York to be near his grandchildren.

Retirees such as Darer are part of a phenomenon called lifelong learning, which began more than 30 years ago but is gaining new popularity as baby boomers retire. These programs provide ways for seniors to increase their knowledge and explore new interests in ways they never could when they were saddled with tough work schedules and family obligations. They also offer opportunities for retirees to make social connections with people of similar life experiences and interests. "Continuing education for seniors is crucial for their mental and physical health," says retired mathematician Stanley Schmidt, 74, of Poughkeepsie, N.Y., who has been teaching science and math courses for 20 years at Marist College's Center for Lifetime Study, which is organized and run by seniors.

In choosing courses, you can be whimsical or serious, find new passions or just fill in a knowledge gap. There are heavyweight subjects, such as "Current Trends: Technology and Culture" at Washington University in St. Louis and "The Civil War" at Regis College in Weston, Mass. On the lighter side, you can learn about Cole Porter, George Gershwin and other American songwriter greats by taking "They Wrote the Songs" at George Mason University in Fairfax, Va. Or you can go practical by taking classes on smart-phone photography, Microsoft Word or personal-finance topics, such as a course at Kellogg Community College in Battle Creek, Mich., on making money from your garden.

A big attraction is the freedom to come and go if you want to miss a class or drop it. In many programs, there are no tests or textbooks, and there's lots of laughing, teachers report, because retirees are taking courses they want to take, not to meet college requirements. And the atmosphere can be informal. "An adult group is not shy. They don't always want to follow the rules in asking questions," says Harry Wolf, 90, of Walnut Creek, Cal., who worked as a human resources manager until he retired at 65.

If you're looking for retiree-oriented college courses, your first stop could be the Osher Lifelong Learning Institute. The institute sponsors programs for people 50 and older at 117 university and college campuses around the U.S. Before taking a course, you must become a member. Many of the non-credit courses are taught by professors, but others are developed and taught by the volunteer retiree participants who are experts in their fields. The Osher institute has 113,000 dues-paying members. (Find a program near you at www.osherfoundation.org/index.php?olli_list.)

Membership in Osher programs and enrollment in many other college programs such as the one at the Marist center typically run between $200 and $600 a year. Often, there is no additional charge to take a course. Depending on the program, you could take up to four classes for an eight-week session.

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At many programs, you simply register. But some programs have slightly more-rigorous admission standards. For example, the 36-year-old Harvard Institute for Learning in Retirement generally bases admission on your academic or career background as well as a willingness to run a study group.

The Harvard program, open to 550 students a year, offers 50 to 60 courses a semester for 12-week sessions. The only requirement: weekly reading assignments. Among its courses: "China's Rise and What It Means to Asia" and "Theory of Relativity, Quantum Mechanics and the Nature of Reality."

The Harvard program costs $800 for up to three courses a year. The students range in age from 60 to 95, says director Leonie Gordon. "Retirement is a new experience, a reinvention of self," Gordon says. "People are discovering talents, passions, curiosities they may not have known before."

It's also worth asking nearby colleges if you can audit a class. Many colleges allow seniors older than 60 to attend regular courses. The University of Pennsylvania in Philadelphia, for example, charges seniors $500 to sit in on selected undergraduate courses—from "The Age of Chaucer" to "Criminal Justice." If there's space available, seniors in Ohio can audit classes free as part of Kent State University's Senior Guest Program.

Living the Campus Life

A growing number of retirees who want intensive intellectual immersion are moving to university towns, attracted by culture and learning opportunities. And many colleges are building retirement communities—or creating relationships with existing ones—that are considerably nicer than your old college dorm.

Retirees who live on the Tuscaloosa campus of the University of Alabama are invading the classroom. In 2010, the university bought a senior complex that's right on the campus. Capstone Village rents 108 one- and two-bedroom apartments and 22 garden homes designed for independent living. It has 13 assisted-living units and 16 for memory care. Apartment rents range from $2,600 to $4,400 a month. The program organizers regularly plan outings to football and basketball games, concerts and other activities on campus.

The University of Alabama's Osher Lifelong Learning Institute offers 80 courses a semester for its 700 members. About 30 Capstone Village residents regularly take courses, such as "Favorite Military Leaders" and "Two American Wars Through American Art."

Linda Shumilas, 65, a retired insurance executive from Florence, Ala., moved to Capstone Village with her husband last December. The university was their magnet. "The hardest part is trying to plan our schedules so we don't have too many things to do," says Shumilas, who, as one of her first classes, took a course on the jellyfish of Palau taught by a biologist. She's also dropped in to audit university classes for free, one of the bonuses of living at Capstone Village.

If you would like to get out of the classroom, choose a course that includes an educational trip. North Carolina State University's Encore Program for Lifelong Enrichment offers 200 courses at three locations for some 3,000 participants. One of its popular offerings earlier this year was a four-day trip to St. Louis that cost $995, including the flight. The field trip for the 15 participants was offered as part of two classes at the university, "The Adventures of Huckleberry Finn" and "Show Me St. Louis."

The group visited Mark Twain's birthplace in Hannibal and saw museum collections of the work of Missouri writers at Washington University. The students also visited a cemetery where famous Missourians are buried: playwright Tennessee Williams, late 19th-century novelist Kate Chopin, humanitarian Dr. Thomas Dooley III, freed slave Dred Scott and Civil War General William Tecumseh Sherman.

At Kellogg Community College, 34 seniors at its Institute for Learning in Retirement took a one-day trip in March to visit the traveling exhibit of items salvaged from the Titanic at the Grand Rapids Public Museum. In a recent course on the history of baseball, the class went to a Detroit Tigers game. Later this year, a class on "No Fear Shakespeare" will visit the Stratford Shakespeare Festival in Ontario, Canada. On the outings, "the camaraderie is extensive," says program coordinator Connie Dawe.

Many retirees teach courses based on their expertise. Herbert Eder, 77, a retired professor of geography and environmental studies at California State University, East Bay, helped create and secure a grant for the Osher program there. The program now has 1,100 members and offers 20 to 30 courses each trimester.

Eder, who lives in San Ramon, teaches courses with field trips on the environment and on the geography of California wine country. "The best thing about teaching seniors is they don't raise their hands during a lecture to ask, 'Will this be on the test?'" Eder says.

What drives him? "Seniors ask the best questions. They are learning for the love of learning," he says. **K**

—JUDI HASSON

ESTATE PLANNING

Put a Plan in Place To Ensure Pets' Care

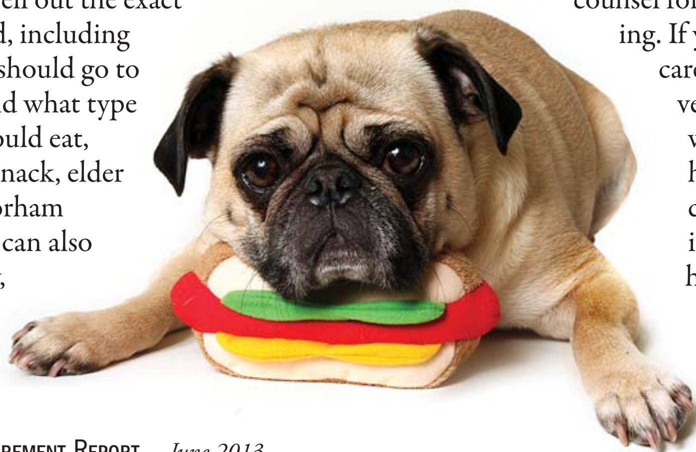
If you're a pet owner, you probably consider your dog, cat or cockatiel a member of your immediate family. But chances are, the estate plan that so carefully provides for your other loved ones leaves your pet out in the cold.

Only 17% of dog or cat owners have taken any legal steps to provide for pets' care after their death, according to a recent survey by the ASPCA. Most people simply assume that a friend or relative will take care of their pet after they're gone, animal advocates say, and many pets wind up in shelters when such ad hoc arrangements fall through. "A lot of people just take it for granted that the pet is going to be taken care of, and they don't do any planning," says Hyman Darling, an elder law attorney in Springfield, Mass.

Yet pet owners are gaining more legal options for planning their pets' future. Nearly all states now have laws specifically allowing trusts to be created for the care of an animal. And the ASPCA late last year teamed up with legal Web site LegalZoom.com to promote the use of the Pet Protection Agreement, a contract between pet owners and designated guardians that provides for continuing care.

If your pets have complex care needs, and you're planning to leave a substantial sum of money to provide for them, talk to an estate-planning lawyer about whether a stand-alone pet trust is appropriate. This type of trust can take effect if you're incapacitated, not just after your death. You can name a trustee to manage the funds and a different person to act as the pet's caregiver, providing for checks and balances on how the money is used.

The trust can spell out the exact care to be provided, including how often the pet should go to the veterinarian and what type of food the pet should eat, says Shirley Whitenack, elder law attorney in Florham Park, N.J. Owners can also name a beneficiary, such as a charity or relative, to receive any assets left over after the pet's death.



A pet trust can cost $1,500 or more to set up, and it makes the most sense for owners leaving $50,000 or more for their pet's care, Darling says.

For the vast majority of pet owners, however, a Pet Protection Agreement can provide all the planning required at a fraction of a trust's price, animal advocates say. Like the stand-alone trust, the agreement is effective if you're unable to care for your pet as well as after your death, and it can include details about the type of care to be provided. The agreement may include money designated for the pet's care, but that's not required. Your designated pet guardian must sign the agreement to make it effective.

Owners can complete a Pet Protection Agreement at LegalZoom.com. The cost is $39 to $79, with the more expensive versions offering free revisions or secure electronic storage of the document.

The Cost of Rover's Future Care

When considering how much money to leave for your pet's care, tally the animal's food, grooming, veterinary and other basic costs, and multiply that amount by its remaining life span. Consider leaving an additional cushion to cover higher medical costs as the pet ages.

Don't rely on your will to provide for your pet's care. The will only takes effect after your death, and it can be held up for weeks or more in probate—leaving your pet in limbo. But your will should mention your pet estate-planning documents, says Rachel Hirschfeld, the New York City animal-law attorney who created the Pet Protection Agreement. In her own case, she says, her will mentions the pet trust and Pet Protection Agreement that provide for her cat and two dogs.

If you do nothing else, put together a "pet dossier"—a file of information on your pet's food preferences, medical conditions, medications and veterinarian, says Kim Bressant-Kibwe, ASPCA's counsel for trusts, estates and planned giving. If you haven't found a permanent caregiver, she says, "identify at the very least a temporary caregiver who can come in if you go to the hospital" and feed your pet. And consider carrying a "pet alert card" in your wallet that states that you have pets at home and gives the contact information of someone who can care for them. K

—ELEANOR LAISE

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