



# THE power years

A USER'S GUIDE TO THE REST OF YOUR LIFE

TM

**HAVING FUN—AGAIN**  
Ken Dychtwald, Ph.D.

**LESSONS ABOUT LEGACY**  
Catherine Fredman

**REJUVENATE? ABSOLUTELY**  
Rachel Grumman

## INTRODUCTION

# HAVING FUN — AGAIN

Instead of just being a break from work, your new leisure can provide you with countless opportunities to truly liberate and recreate yourself. **By Ken Dychtwald, Ph.D.**



lives. One response, “having more fun,” outranked every other choice on the list.

Our generation will morph leisure completely. We’ll embark on wilderness adventures and exotic travel — not only from the safe sanctum of a cruise ship deck or tour bus, but from college classrooms, urban centers or the most remote lands — as part of experiential vacations, volunteer work and cultural study.

Already, hundreds of companies have emerged to serve our longing for discovery and adventure. Want to hike through a

chance to rest and recharge my batteries. It’s an opportunity to enhance the relationships that matter most and maybe to make some new friends along the way. Every year, my wife, Maddy, and I take a week to renew our marriage. So far, we’ve had 22 remarriages. We come to grips with what’s working, what’s not working, and what we want more of. Then, we repeat our wedding vows.

We also take annual family vacations with our two teenagers, Casey and Zak, and for the past five years, have been taking individual trips with each one. Maddy

**THE ANCIENT GREEKS CONSIDERED NEW EXPERIENCES IN THEIR NONWORKING HOURS TO BE THE MAIN PURPOSE OF LIFE. WE’VE SINCE TURNED THE TABLES.**

rain forest, debate global politics in a lively classroom, re-enact Civil War battles, create a quilt,

learn to surf, motorcycle through the California wine country, try watercolor painting, read Plato, build houses for people in need or trace your ancestry? A couple of clicks on the Internet reveal opportunities for whatever holds special appeal to your sense of fun and creativity.

For me, leisure offers more than

and I dream of the day when we can stretch a vacation to three or four weeks. We can’t do it right now with our 15-year-old still at home. But when both of our kids are at college — blast off.

Meanwhile, we’re examining all of the emerging leisure possibilities so that when that time comes, we’ll know what we want to do and how to organize our lives to do it.

In short, it’s time to strip away your old perceptions of recreation being largely a way to relax and unwind. Invest your new leisure in yourself: test your limits and find new interests, bond with old friends and make new ones. Instead of just being a break from work, your new leisure can provide you with countless opportunities to truly liberate and recreate yourself.

Welcome to the Power Years. [kdychtwald@agewave.com](mailto:kdychtwald@agewave.com)

# R

Recently, I had to call my lawyer about a business contract. As soon as he answered the phone, I sensed that he was in the middle of a hassle. I asked, “Is this a good time to talk?”

“Hey, the last good time to talk was in college,” he answered.

Most of us are part of dual-income couples or hardworking single parents struggling to balance work and family, and finding only an occasional weekend for a little R&R. While we’re racing around to meet everyone’s needs and falling behind in the bills, the light at the end of the tunnel may seem no bigger than a lit match in an ocean of dark.

It hasn’t always been like this. The ancient Greeks considered new experiences in their nonworking hours to be the main purpose of life. We’ve since turned the tables and while the reversal has brought us many fancy things, it may also be robbing us of time to discover ourselves, nurture relationships and just enjoy life.

In Merrill Lynch’s 2005 “New Retirement Survey,” we asked boomers what they were looking forward to most in the next phase of their



Adapted from “The Power Years: A User’s Guide to the Rest of Your Life,” by Ken Dychtwald, Ph.D., and Daniel J. Kadlec, to be published this week by Wiley. Available in bookstores and online.

» ALREADY, HUNDREDS OF COMPANIES HAVE EMERGED TO SERVE OUR LONGING FOR DISCOVERY AND ADVENTURE.

## INHERITANCE

THE power years

## LESSONS ABOUT LEGACY

As boomers and their elders begin to confront the issue of inheritance, they are discovering that they stand on opposite sides of an enormous generation gap.

**T**he 18th-century Spode platter is worth more money, but Melinda Marshall wishes she had inherited her grandmother's earthenware mixing bowls instead. "I was incredulous when she said, 'Oh, I got rid of that junk,'" recalled Marshall, 46. "For me, the cookies she made in them, the fact that we used them together was what made them valuable. The Spode piece may be of value to 'Antiques Roadshow,' but it wasn't doused in memory."

As boomers and their elders — parents, grandparents and other older relatives — begin to confront the issue of inheritance, they are discovering that they stand on opposite sides of an enormous generation gap rife with the potential for family conflicts.

By conservative estimates, some \$25 trillion is due to be passed from the current elder generation over the next several decades, the largest intergenerational wealth transfer in history. According to the Allianz American Legacies Study, a ground-breaking survey of more than 2,600 boomers (age 40-59) and their parents (age 65 and over), it won't happen easily. (For more information, go to [www.allianzlife.com](http://www.allianzlife.com).)

Ironically, both boomers and elders share the same fundamental philosophy. The Allianz study revealed that four pillars construct a legacy: values and life lessons; final instructions and wishes to be carried out; possessions with emotional value; and financial assets and real estate. "Both generations rate values and life lessons as the most important part of a legacy,"



**ONE OF THE MOST THOUGHTFUL LEGACIES THAT ANYONE CAN LEAVE IS PEACE OF MIND.**

noted Mark Zesbaugh, C.E.O. of Allianz Life Insurance Company of North America. "And both put financial assets and real estate at the bottom of the list." In fact, life lessons and objects of sentimental value were approximately 10 times

## THE FACTS

**Elders are four times as likely as boomers to think their financial assets or real estate are a very important part of their legacy, while underestimating the importance of their final instructions and wishes.**

Source: Allianz American Legacies Study

more important to people than the money.

But while they share the same sentiments, each generation thinks the other feels differently. Such ingrained misperceptions about mortality, money and memories, as well as a lack of communication, prevent the two generations from finding common ground.

Both elders and boomers claim they are having comprehensive conversations about legacy and inheritance. But only 30 percent of those surveyed had actually talked about it in depth.

Many boomers don't raise the issue because they are afraid their elders might think they're just after their money. In fact, boomers place much more weight on personal possessions of sentimental value and fulfilling final instructions. Only 10 percent consider it very important to inherit money or real estate. Elders are four times as likely as boomers to think that real estate or financial assets are a very important part of their legacy.

## A FAMILY AFFAIR

While most elders still say that their valuables should be distributed equally, an increasing number consider doling out their estate according to merit. This pay-for-performance approach, especially prevalent in families with a high net worth (more than \$250,000), rewards children who help care for their parents and slices the share of those who cause conflict or show disrespect.

Both elders and boomers spotlight an "alpha child" to take the lead in family decisions about legacy. Surprisingly, the chosen one isn't necessarily the eldest — or the son, or the most successful or even the one who lives closest. Instead, it's the child whom parents feel is the most intelligent, good with money, trustworthy and easy to talk to.

The Allianz study makes ringingly clear that both boomers and their elders view legacy as much more than the mere transfer of wealth. But leaving a legacy that everyone can love depends on elders and boomers being able to bridge the new generation gap.

That's why Melinda Marshall's mother has begun to look around

## SURVEY QUESTION:

If you could only pick one, which of these is the most important to pass between generations?

	BOOMERS	ELDERS
Sense of ethics & morality	30%	20%
Family traditions & stories	8%	3%
Wishes to be fulfilled	6%	3%
Possessions of emotional value	2%	1%

Source: Allianz American Legacies Study

her own house with an eye not just toward which of her six children will get what but why. "If there's something she wants us to have, she discusses it. And if there's something we want, we discuss it," says Marshall. "It's so important for those discussions to take place now while we can sort things out."

This is the first of two articles on the topic of legacy and inheritance. The next article, which will appear on Nov. 6, will describe how elders and their children can begin to talk about the kind of legacy they want to give and receive.

» LEAVING A LEGACY THAT EVERYONE CAN LOVE DEPENDS ON BEING ABLE TO BRIDGE THE NEW GENERATION GAP.

# REJUVENATE? ABSOLUTELY

Are there real fountains of health? The good news is that there's no need to grow old passively with the plethora of options available to help roll back the clock.

**T**ake a married couple, both of whom are 60. She feels like she's 40, while he feels like he's 75. What changes can the "older" partner make to reverse this feeling and retain youthfulness? "The question being asked by America's youth generation is, 'Are there methods, techniques and medications that baby boomers can find that will slow down the aging process and allow them to stay 40 or 50 for decades?'" says gerontologist Ken Dychtwald, president of Age Wave, a think tank and business development firm in San Francisco, Calif., and co-author

with Daniel J. Kadlec of "The Power Years: A User's Guide to the Rest of Your Life."

"Are there real fountains of health?" continues Dychtwald. "Can you reverse the clock and cause a 50-year-old body to look and function like it's 35 again? In response to this, there have been developments in the scientific field and commercial product lines appearing on a daily basis that claim to deliver that promise."

The good news is that there's no need to grow old passively with the plethora of options available to help roll back the clock. By staying mentally and physically active, you're not only

improving your health but also transforming how you look and feel, generating a re-energized, rejuvenated you.

medicine at the University of Maryland in Bethesda, and author of "Body for Life for Women: A Woman's Plan for Physical and Mental Transformation," the key is changing the way you measure your fitness, and the kind of workouts you do. First, forget the number on your scale. Knowing and monitoring your body composition — the percent of fat, lean muscle tissue and bone that makes up your body — is a better way to gauge your health and fitness. One way to do it: an at-home body composition analyzer (such as Tanita's InnerScan monitor at [www.tanita.com](http://www.tanita.com)), which elec-

pound kids or playing with your company softball team," says Dr. Peeke. "After the age of 40 or 50, you need to put more deliberate action into planning for and executing physical activity." In other words, it's time to switch to an exercise plan that combines resistance training, cardiovascular exercise, and flexibility and balance exercises. In daily life, offer yourself resistance, suggests Dr.

## WEIGH YOUR OPTIONS

Following this exercise regimen is a fundamental part of developing a fitter, healthier body:

### Strength training:

- Lift free weights or use a resistance band 2-3 times a week (at least 30 minutes each session).
- Aim for 2 different exercises for each major muscle group (shoulders, chest, back, biceps and triceps for the upper body; quadriceps, hamstrings and calves for the lower body). Alternate upper and lower body workouts on different days.
- Do 3 sets of each exercise. With each set, increase weight and decrease repetitions: 12-20 reps for the first set; 12-15 for the second; 8-10 for the third.

### Cardiovascular exercises:

- Aim for 3-5 days a week (at least 30 minutes). Bored on the treadmill? Try biking, hiking or training for a 5k run.
- Take a walk. Every mile you walk burns about 100 calories. Keep track with a pedometer: "Do 10,000 steps, or 4 miles, a day and you'll burn 400 calories," suggests Dr. Peeke.
- Try Pilates or yoga for flexibility and balance.

## FORGET THE NUMBER ON YOUR SCALE. KNOWING AND MONITORING YOUR BODY COMPOSITION IS A BETTER WAY TO GAUGE YOUR HEALTH AND FITNESS.

improving your health but also transforming how you look and feel, generating a re-energized, rejuvenated you.

In this article, we'll look at the many ways to achieve that rejuvenation. It's a multipronged approach — including exercise, lifestyle changes, surgery, cosmetics, pharmaceuticals and even mind games.

### SWEAT A BREAK

Baby boomers can't help but notice that no matter how fit they are, their bodies aren't what they used to be. Although the shape shift can be disturbing, it's not irreversible.

According to Dr. Pamela Peeke, assistant professor of

tronically measures your bone mass, muscle and fat and displays each in percentages.

Next, change the way you exercise. "As you get older, strength training becomes even more important because it becomes exquisitely easy to lose muscle mass," says Dr. Peeke. "A woman between 35 and 55 can lose at least 10 pounds of muscle mass through sheer disuse." Since every pound of muscle requires 30 to 50 calories a day, the more muscle tissue you lose, the fewer calories your body burns naturally.

As you hit your 40's, you need to keep increasing the amount of resistance training you do to maintain and build muscle mass. "You're no longer lifting 30-

Dr. Pamela Peeke

» DR. PAMELA PEEKE: "A WOMAN BETWEEN 35 AND 55 CAN LOSE AT LEAST 10 POUNDS OF MUSCLE MASS THROUGH SHEER DISUSE."

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Peeke: carry your own groceries to the car instead of letting the bag boy do it; pull your own weeds instead of hiring a gardener.

### THE RIGHT BITE

It's more important than ever to heed the nutrition advice you've been hearing for years. "After age 40, you can't trash your body over the weekend and starve yourself Monday through Friday," says Dr. Peeke.

Although it may sound like a broken record, there is no better diet than one that balances protein, complex carbohydrates and healthy fats and is rich in fruits, vegetables and whole grains.

How much and when you eat also play a part. "After the age of 50, you have to pay attention to portion size," says Dr. Peeke. "Read the U.S.D.A. label, figure out the serving size and respect the serving size." To prevent your weight from advancing along with your age, eat small, frequent meals throughout the day. "If you eat roughly every three to four hours, you will maintain the lowest body fat, highest level of physical performance and your best overall weight," says Dr. Peeke. When you wait too long to eat, you make a decision based on hunger, and then eat more than your body needs.

### CHASING YOUTH

Forget what you've heard about gracefully surrendering your youth: there's no reason you shouldn't look as good as you feel. "Baby boomers are the proactive generation," says Dr. Alan Matarasso, associate clinical professor at the Albert Einstein College of Medicine in the Bronx, New York, and spokesperson for the American Society of Plastic Surgeons. "It makes sense that they would embrace plastic surgery because it's going to do something more for them than they'd be able to do on their own."

There are myriad surgeries



available to counter the toll gravity and time take on baby boomers' bodies. Breasts start to sag and lose fullness on the top, which can be remedied with a surgical breast lift and implants, respectively. Eyelid surgery can also turn back the clock, as can a mini-face-lift, which surgically repositions the skin to eliminate sag. Liposuction, which removes unwanted fat, is a popular procedure for both women and men.

As you age, your skin loses its elasticity and firmness, as well as

alpha hydroxy acids, vitamin C serums and prescription retinoids (such as Retin-A), which exfoliate the skin and help diminish or prevent fine lines.

### MEDICINE'S MIRACLES

Modern medicine has made enormous strides in reversing health problems. Just look at statins, which treat high cholesterol by inhibiting the liver's ability to manufacture cholesterol. Or the humble aspirin, which makes platelets less sticky,

## STAYING YOUNG

forming cells, or osteoblasts.

In addition, supplements such as glucosamine sulfate and chondroitin sulfate may slow the deterioration of — or even restore — joint cartilage, and relieve pain in some patients with osteoarthritis. And let's not forget about the prescription drugs Viagra and Cialis, which combat erectile dysfunction by increasing blood flow.

### SHARP MIND, YOUNG MIND

The brain is not spared from the aging process. "You start noticing the mental decline — the most apparent being memory loss — in the baby boomer years," explains Steven H. Ferris, executive director of the Aging and Dementia Research Center at New York University's Silberstein Institute in Manhattan. "By the time you're in your 50's or 60's — and particularly the 70's on up — there's an impact on productivity. However, the brain can still improve and grow new connections even when you're 100."

There's good evidence that plenty of exercise makes the brain work better. People who are physically active "have a decreased rate of Alzheimer's, cognitive and memory decline, and depression," says Dr. Peeke. It also appears that what's good for the heart is good for the brain: people with low cholesterol have a lower risk of Alzheimer's, according to Ferris, while those with high cholesterol have a higher risk of memory decline.

People with hobbies that exercise their brains, such as jigsaw puzzles and chess, are also less likely to develop Alzheimer's disease, according to research published in March 2001 in the journal *Proceedings of the National Academy of Sciences*. Subjects who spent their leisure time playing intellectually challenging games during ages 20-39 and ages 40-60 were two and a half times less likely to develop Alzheimer's.

To maintain mental fitness, do crossword puzzles and word games regularly and play Scrabble and card games. "Think of it like a health club for the brain," says Ferris.

**PEOPLE WITH HOBBIES THAT EXERCISE THEIR BRAINS, SUCH AS JIGSAW PUZZLES AND CHESS, ARE LESS LIKELY TO DEVELOP ALZHEIMER'S DISEASE.**

the subcutaneous fat that fills out the face and keeps it looking youthful. Three of the most popular nonsurgical techniques to counter the aging process are Botox, injectable fillers and lasers. And because one cosmetic procedure can't do it all, plastic surgeons sometimes recommend a combination of services. "We have patients who do a chemical peel, inject fat into their lips and get Botox," says Dr. Matarasso. To maintain younger-looking skin, use topical creams such as

lowering the risk of clots that trigger heart attacks and reducing inflammation in the arteries.

More and more pharmaceuticals focus on repairing or reversing health problems instead of simply stalling them. Unlike other osteoporosis treatments (which slow or stop bone loss by reducing bone-removing cells called osteoclasts), the new F.D.A.-approved osteoporosis drug Forteo (teriparatide) stimulates new bone formation by increasing the number of bone-

» IF YOU EAT ROUGHLY EVERY THREE TO FOUR HOURS, YOU WILL MAINTAIN THE LOWEST BODY FAT.

# EATING FOR YOUR HEART

We don't have to wait for a new drug or laser. Simple lifestyle changes can have a huge impact. Making smart food choices is a powerful way to maintain the heart.

**M**aking smart food choices is one of the most powerful ways to achieve, as well as maintain, a younger, healthier heart. “We were the first to prove you can reverse heart disease through diet, which is great news,” says Dr. Dean Ornish, founder, president and director of the nonprofit Preventive Medicine Research Institute in Sausalito, Calif., and author of “Dr. Dean Ornish’s Program for Reversing Heart Disease.”

Pecke, assistant professor of medicine at the University of Maryland in Bethesda, and author of “Body Life for Women: A Woman’s Plan for Physical and Mental Transformation.”

To eat for your heart:

- **Go fish.** Cold-water fatty fish such as wild salmon, mahi mahi and whitefish are high in heart-helping omega-3 fatty acids. Omega-3’s, found in fish oil, appear to reduce triglyceride levels, lower blood pressure and stabilize the heartbeat, according

to contain antiaging flavonoids — powerful antioxidants and anti-inflammatory substances. Flavonoid-rich foods include grapes (and red wine), cranberries, onions, tomatoes and tea, according to Dr. Oz.

Bananas, avocados and melons also contain potassium, which promotes arterial health. Eat five or more servings of fruits and vegetables daily.

- **Go nuts.** Research shows that regularly consuming a small handful of nuts, particularly walnuts, helps reduce the risk of heart disease.

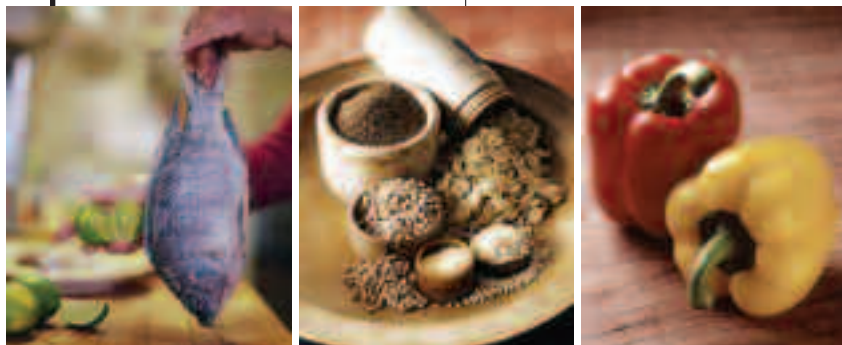
- **Forgo unfriendly fats.**

Watch your intake of saturated and trans fats, found in fried and baked foods, meats and full-fat dairy products. When choosing fats, select monounsaturated fats, mostly from olive oil. Aim to eat foods with less than three grams of fat per serving, notes Dr. Ornish. Also, limit simple carbohydrates such as sugar and white flour.

- **Slow down on salt.** Eat less than 2,400 milligrams of sodium (salt) per day, suggests the American Heart Association (A.H.A.).



- **Take your vitamins.** In addition to taking a daily multivitamin, make sure you’re getting magnesium (400 milligrams daily), which helps keep the heart rhythm steady, and calcium (600 milligrams twice daily), which helps lower blood pressure. You need to take vitamin D (400 I.U.’s daily for those under age 60) to absorb calcium. B vitamins including folate (800 micrograms



“Heart disease kills more Americans every year than virtually everything else combined,” says Dr. Ornish. “The good news is that at least 95 percent of heart disease is completely preventable. We don’t have to wait for a new drug or laser. Simple lifestyle changes can have a huge impact.”

In general, make sure that 90 percent of what you eat comes from whole — not processed — foods, which will increase the amount of heart-healthy nutrients your body takes in. That means instead of grabbing a danish, “have oatmeal with blueberries, walnuts and a dash of cinnamon, or an egg-white omelette with fruit, in the morning,” suggests Dr. Pamela

to Dr. Mehmet Oz, professor and vice chairman of surgery at Columbia University in New York City and co-author with Dr. Michael Roizen of “You: An Owner’s Manual.”

“[Fish oil] can reduce your risk for heart attack and sudden cardiac death by 50 to 80 percent,” says Dr. Ornish. “It also reduces the risk of prostate and breast cancer, and some say it may reduce the risk of depression.” Not a fan of fish? Instead, take fish oil supplements. Aim to get in three grams a day.

- **Go with the grains.** Whole grains such as oatmeal, whole wheat breads and brown rice reduce the risk of heart disease and are rich in filling fiber.

- **Veg out.** Fruits and vegetables

**IN GENERAL, MAKE SURE THAT 90 PERCENT OF WHAT YOU EAT COMES FROM WHOLE — NOT PROCESSED — FOODS.**

- **Easy on the alcohol.**

According to the A.H.A., women should have no more than one alcoholic drink per day and men no more than two. A single drink means 12 ounces of beer, 4 ounces of wine, 1.5 ounces of 80-proof spirits or 1 ounce of 100-proof spirits.

daily) lower homocysteine levels, which may promote heart disease. The antioxidants vitamin C (600 milligrams twice a day) and vitamin E (400 I.U.’s daily) are also beneficial. Talk to your doctor before taking vitamin E, especially if you’re taking a statin, suggests Dr. Oz.

➤ HAVE OATMEAL WITH BLUEBERRIES, WALNUTS AND A DASH OF CINNAMON, OR AN EGG-WHITE OMELETTE WITH FRUIT, IN THE MORNING.

# GIMME SHELTER:

Improve your cash flow by saving more of your money from taxes. Fortunately, there are ways to roll with the punches so that your finances aren't flattened by taxes.

**E**lizabeth Austin could use a break — a big tax break. “I don't expect anybody to cry a river over us,” said the 46-year-old communications director for a Chicago nonprofit organization, who is married to a lawyer and lives in a comfortable house in a pleasant suburb. “But right now, we have one child, age 20, in college. We have another daughter, age 12, who is entering her most expensive at-home years with summer camp and afterschool programs, and we're looking at her college costs five years down the road. I'm thinking about going back to school myself. And we're supposed to be saving mightily for our retirement. But even if a miracle happens and we suddenly have more money, we'll just be dealing with a higher tax bill.”

Many boomers in their peak earnings years can sympathize. Since they earn more, they should be able to save more. But their high earnings boost them into a higher tax bracket that — combined with greater expenses — delivers a double whammy to their savings goals.

Fortunately, there are ways to roll with the punches so that your finances aren't flattened by taxes. “In many situations, you can improve your current cash flow by saving taxes, rather than by making more money,” said Tom Rowan, a financial planner with Prudential Financial. If you consult a tax professional and act before Dec. 31, you can minimize the tax impact for both 2005 and 2006.

## 1 TAX-SMART INVESTING

Although most investors are familiar with the concept of asset allocation, “few people



Elizabeth Austin and family: “...Even if a miracle happens and we suddenly have more money, we'll just be dealing with a higher tax bill.”

think of tax diversification,” said Brad Melby, senior financial adviser with Ameriprise Financial. You can save a surprising amount if you allocate your investments according to where they will receive the greatest tax benefits.

Start by taking advantage of the long-term capital gains tax. If you hold your investments for at least one year and a day, any gains are taxed at 15 percent rather than your usual tax bracket. For someone in the 30-percent tax bracket, the federal tax on a \$10,000 profit would be only \$1,500, rather than \$3,000. (City and state taxes may eat up more of the profits.)

Capital gains taxes are at his-

toric lows, but you can further reduce the bite by avoiding actively traded mutual funds. “Trading a lot doesn't necessarily mean a better rate of return, but it certainly means you'll pay more in taxes,” said Norm Mindel, a certified financial planner with Genworth Financial.

Alternatives include index funds, exchange-traded funds and tax-managed funds. These funds typically don't distribute capital gains, according to Fran Kinniry, a principal with Vanguard Group's Investment Counseling and Research arm. Since they work by balancing the losses against the gains, there are no gains to pay taxes on.

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## PROTECTING YOUR RETIREMENT PORTFOLIO

“For boomers, a lot of assets have accumulated in tax-deferred accounts. There's this tax liability hanging over them,” said John Olson, a Merrill Lynch wealth management adviser. Withdrawals from regular IRA's and 401(k)'s are taxed as ordinary income, which can mean paying as much as 35 percent to Uncle Sam. Evaluating your retirement portfolio now can prevent unpleasant tax consequences in the future.

Look for investment options that are not just tax-deferred but tax-protected. These include:

## FINANCES

**Municipal bonds.**

Intermediate maturities, 8 to 14 years, offer yields that — because they are free from federal, state and local taxes — are comparable to taxable bonds with higher returns. Municipal bonds have the added advantage of not being subject to required distribution at age 70.

**Health savings accounts.**

Investors between 55 and 65 can further boost the amount in their accounts by utilizing the catch-up provisions.

**Roth IRA's.**

If you are eligible — meaning an annual income of no more than \$110,000 for individuals and \$160,000 for married couples filing jointly — your withdrawals are tax-free and, unlike other IRA's or 401(k)'s, there is no required distribution.

**Net unrealized appreciation.**

In addition, if you have a sizable portion of your 401(k) in company stock, consider taking advantage of net unrealized appreciation. Let's say you have been buying company stock throughout your tenure, during which time the stock has quadrupled in value from \$20 a share to \$80. Under the rules for net unrealized appreciation, if you receive a lump-sum distribution of the stock, you would pay tax on the average cost basis, rather than the current market price. The lower the average cost basis, the more advantageous the tax gain when you take the required distribution. Keep in mind, however, that there is a risk that the company stock may significantly decline in value between now and your distribution date.

There has also been growing enthusiasm over the past few years for dividend-paying stocks, and rightly so: these stocks offer both growth and income. Another plus: qualifying dividends are subject to the same tax treatment as long-term capital gains. For someone in the 28-percent bracket, \$1,000 in dividend income costs only \$150 in federal taxes, rather than \$280. If you don't want to invest in specific equities, dividend indexes — such as the Dow Jones Dividend Index (DVI) or Power Shares (PEY) — or dividend funds are tax-efficient options.

For most investors in states and cities with a high tax rate, it's a good bet to allocate your fixed-income investments to federal-tax-free and state-tax-free in-state bonds, or triple-tax-free municipal bonds. "Munis are good value because your tax-free return is very attractive compared to what you'd have to get in a taxable equivalent yield," noted John Olson, wealth management adviser for Merrill Lynch.

**2 SAVING ON HEALTH CARE EXPENSES**

Medical expenses, including insurance premiums, may be deducted from your federal income tax only if they total at least 7.5 percent of your adjusted gross income (AGI). That renders such deductions moot for boomers who are both affluent and healthy. Health savings accounts (HSA's), however, can be good for both your welfare and your wallet.

Here's why: to open an HSA, you must be covered by a high deductible health plan (HDHP), with an annual deductible of between \$1,000 and \$5,100 for self-only coverage or \$2,000 and \$10,200 for family coverage. The tax savings kick in because you can contribute a certain amount of the deductible — up to \$2,650 for single coverage and \$5,250 for a family, adjusted annually for inflation — to a health savings account. That contribution counts as an "above-the-line" tax deduction (one that reduces your total taxable income). HSA funds are invested and grow tax-free, and can be withdrawn tax-free to

continued >>

## FINANCES



pay for any qualified medical expenses, including over-the-counter medications.

If you're already thinking of switching to an HSA, there's an added bonus: you can pay the premiums for long-term-care insurance out of that tax-protected money.

### 3 TAX BREAKS FOR EDUCATION

Qualified tuition programs, also known as 529 plans, are one of the best federal tax breaks around. Earnings grow in a tax-deferred account, and distributions are free from federal taxes when used for postsecondary education costs. In some states, contributions to the state's 529 plan are even tax-deductible; New York State residents, for example, can deduct up to \$5,000 for an individual and \$10,000 for a married couple filing jointly.

Couples earning less than \$160,000 jointly (\$80,000 for singles) are also eligible for up to \$4,000 in deductions for higher-education expenses for their children. This deduction applies only to tuition and fees. It is nonexclusive, so if you can swing it, you can take the deduction and fund a 529 plan.

### 4 SLICING YOUR HOUSING COSTS

Are you outgrowing your house? Many people take out a home equity loan to build an addition because they've heard that the interest is tax-deductible. The fact is, only the interest on the first \$100,000 produces the tax break. If you're wondering whether to spring for a remodeling job costing more than \$100,000, it makes more sense to move, said Dan Kadlec, co-author with Ken Dychtwald of "The Power Years: A User's Guide to the Rest of Your Life."

According to Kadlec, couples don't have to pay taxes on the first \$500,000 from the sale of their principal residence (for singles, it's the first \$250,000). If your house has appreciated to the point that you're flirting with gains over \$500,000, lock in the tax-deductible gain and start packing.

### 5 SELF-EMPLOYED TAX SAVINGS

Being your own boss seems like tax nirvana: you can write off all business supplies, a percentage of your car expenses and, if you work out of a home office, a portion of your mortgage interest, real estate taxes, utilities, repairs and maintenance. Bear in mind, though, that the issue of home office deduction can be dicey and shouldn't be done without consulting

your accountant.

There is one unquestionable plus of running your own business. "Self-employed people have more flexibility because they can decide when to take income and how to take expenses," explained Melby. While you can't carry forward business expenses to a subsequent year, you can "bunch" them. Combining big purchases in a single tax year boosts your deduction to offset larger-than-expected income.

If at all possible, hire your children. As long as they're performing a real job (not just tickling their Game Boy), kids aged 14 and up are taxed at only 15 percent — and the first \$2,600 is tax-free. Make the most of their earnings by depositing the wages directly into a 529 plan or a Roth IRA.

### 6 GIVING THE RIGHT WAY

Instead of selling a stock to make a charitable gift, leverage your deduction by donating appreciated securities. "When you transfer a stock in kind to a charity, you're getting even more of a benefit because you avoid the capital gains tax," said Olson.

## POWER SOURCES

#### • Financial resources.

Ameriprise Financial: [www.ameriprise.com](http://www.ameriprise.com)

Genworth Financial: [www.genworth.com](http://www.genworth.com)

Merrill Lynch: [www.ml.com](http://www.ml.com)

Prudential Financial: [www.prudential.com](http://www.prudential.com)

Vanguard Group: [www.vanguard.com](http://www.vanguard.com)

#### • Give your grocery list a makeover.

You can find lists of delicious, heart-healthy foods to eat for breakfast, lunch and dinner by visiting Crestor's online healthy food guide. [www.crestor.com/c/diet/healthy.asp](http://www.crestor.com/c/diet/healthy.asp)

#### • Recipes for success.

If you're coming up blank when it comes to cooking a healthy meal tonight, go to Quaker Oats' online recipe finder. Type in a keyword such as "chicken"; then search for recipes. To narrow your search, choose meal type, from an appetizer to a main dish, and cuisine type, from kosher to Italian. [www.quakeroats.com/qfb\\_Recipes/index.cfm](http://www.quakeroats.com/qfb_Recipes/index.cfm)

#### • Explore your options.

If you are over 50 and looking for adventure travel, fitness activities, volunteer opportunities, a job bank and much more, Sterling Glen's online resources page has it all. Sterling Glen offers luxury senior housing from assisted to independent living, as well as home care in New York, Connecticut and Pennsylvania. [www.sterlingglen.com/resources/resources.asp](http://www.sterlingglen.com/resources/resources.asp)