



Retirement

Security

Investment

Growth



An Insider's Guide to **Retirement Planning**



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Whatever your picture of retirement, the best way to get there – and enjoy it once you've arrived – is with a focused, thoughtful plan.

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Introduction

Over the past few years, retirement planning has become increasingly complex. Today, you need to balance a wider range of financial issues than ever before; from IRA and 401(k) accounts, to estate planning, income distribution strategies, tax changes and even how working will affect your Social Security benefits.



When combined with the fact that people are living longer than ever – making retirement more expensive – you quickly see why good, solid retirement planning has become so critical.

The goal of this handbook is to introduce the foundations of financial and retirement planning, to present possible strategies to save and invest before retirement, and ways to invest and draw down in retirement. It should help you to understand what issues are important to consider in your financial planning, what mistakes you can easily avoid, and what options you have to maximize retirement income.

Most importantly, while the handbook will not answer all your questions (as every personal financial situation is unique), it should provide the framework that will help you build the comfortable and enjoyable retirement that we all strive for.

When to Start Planning

While it is never too late to start, the sooner you begin planning your financial future the better. You'll have more chances to save money and your money will have more time to grow.

Remember, **no single retirement plan works for everyone**. Your plan should be customized – shaped by your own goals, your comfort with risk, how long you have until retirement and how long you think you'll be in retirement.

Key questions that need to be considered when you begin your retirement planning include:

- ***How much money will I spend in retirement?***
- ***How long will I need a retirement income?***
- ***What are my sources of retirement income?***
- ***How might taxes and inflation impact my retirement?***
- ***What options are available in building my retirement plan?***

Planning Basics

Many people share common concerns, namely that they won't have enough money when they get older, that they won't be able to live comfortably, or that they won't be able to do the things they had always planned in retirement. In a nutshell, in retirement you will have two central needs: income and security.



The first key point to understand is that yesterday's financial plans may not meet the needs of tomorrow's retiree. This section will illustrate why this is likely the case – and more importantly, will begin to build the foundations on what you can do about it for your specific financial situation.

- **Sources of Retirement Income**

Determine where your retirement income is likely to come from.

- **Setting Realistic Expectations**

Outline your plans for retirement given that your income needs to last longer than before.

- **Managing Retirement Income**

Build an income / expense model to help you optimize your retirement savings.

- **Key Planning Concepts**

Follow these pre-retirement strategies to help you build a more solid retirement plan.

Sources of Retirement Income

The defined benefit company pension plan, once the main source of retirement income, has changed – in many cases disappearing altogether. Social Security, the plan of last resort for many, is running at a deficit. The most frequently asked question about retirement is, “Where will my money come from?”



Did you know?

The average Social Security benefit for all retired workers in 2015 is \$1,328. Future changes to Social Security seem inevitable, meaning you may get less income from that source than expected.

While every financial situation is different, your most likely income sources besides Social Security include:

- Employer-sponsored plans
- Personal retirement savings
- Annuities
- Personal investment accounts

Employer-sponsored Plans

For most of us, Social Security and the company pension plan may not be enough to support the kind of retirement we envision. Supplemental income often comes from employer-sponsored retirement plans that allow you to make contributions through payroll deductions.



You usually have a choice of investment options to choose from and you benefit from tax-deferred growth until you begin withdrawals.

- **401(k) or 403(b) Plans** – A 401(k) plan can be offered to employees by all types of businesses and corporations. This plan allows you to utilize pre-tax dollars to fund your retirement. You benefit from contributions that reduce your taxable income and accumulate tax-free until withdrawal. The 403(b) is similar to a 401(k), but is designed for people working for non-profit organizations (schools, hospitals, churches, etc.).
- **Keogh Plan** – Keoghs are tax-advantaged plans that allow participants to contribute up to \$40,000 or 25% of their eligible income (whichever is less) each year. Contributions are made pre-tax, and investment earnings aren't taxed until withdrawals are taken.
- **SEP-IRA** – A Simplified Employee Pension Plan is especially suited for the self-employed, unincorporated businesses or small corporations. It allows the employer to make contributions on your behalf to a tax-sheltered retirement savings plan (limits set each year). Contributions are excluded from gross income.

Personal Retirement Savings

The most popular example is the Individual Retirement Account or IRA, which can come in different types according to their tax treatment. Both traditional IRAs and Roth IRAs can be used in addition to 401(k) or Keogh plans to help build retirement funds on a tax-deferred basis.

The preferential tax treatment applies to all dividends, interest, and capital gains until withdrawals are taken (as early as age 59½ and starting no later than age 70½). Annual contributions are tax-deductible if certain IRS requirements are met.

The types of IRAs that are now available are:

- Traditional IRA
- Spousal IRA
- SEP-IRA
- Roth IRA
- Rollover IRA
- Educational IRA



Did you know?

The average American should expect to receive **no more** than 35% of their annual retirement income from employer-sponsored pension or profit-sharing plans.



Annuities

An annuity describes a contract offered by an insurance company that allows you to accumulate funds for retirement on a tax-deferred basis. You pay an initial lump sum or ongoing “premium” to the insurance company and in return, they promise to pay you an income stream – either immediately or at a later date. This income is guaranteed* by the insurance company to last either a fixed number of years, or as long as you live.

Your value in an annuity contract equals the premiums you’ve paid in, plus interest credited, less any applicable charges. The insurance company uses this value to calculate the amount of the benefits you’ll receive from them when you begin taking distributions.

The two phases of an Annuity

Annuities can have two phases: a) the Accumulation phase; and b) the Payout phase. During the *Accumulation phase*, the money you put in the annuity earns interest on a tax-deferred basis (minus any applicable charges by the insurer). Because of this tax-deferral, your funds will grow faster than if taxes had to be paid annually on any gains. Also, the longer you leave your funds in this *Accumulation phase*, the greater the impact this tax-deferred growth will have on annuity value.



Annuity Benefits

- Tax deferred earnings
- No contribution limits
- Flexibility in distribution / payouts
- Guaranteed death benefit to beneficiaries

During the second phase, called the *Payout phase*, the insurance company pays income to you, or anyone you designate. Unlike many other retirement savings instruments, you will have significant flexibility in how you receive your funds. For instance, you can choose to receive a 10-year payout, 20-year payout, or even a lifetime payout of income.

There are two broad classes of annuities: *Deferred* annuities and *Immediate* annuities. “Deferred” and “Immediate” refer to how quickly the insurance company starts paying out the income stream.

* Guarantees of annuity payouts or values are based on the underlying strength of the insurance company.

Deferred Annuity

A **deferred** annuity is most appropriate for people who want to:

- Save for future retirement
- Not touch the principal and interest until age 59 ½ or older
- Find an investment that will earn tax-deferred interest for many years
- Save more than the maximum annual contribution of their IRA or 401(k)

Immediate Annuity

An **immediate** annuity is most appropriate for people who want to:

- Retire in the very near future, or are already retired
- Begin drawing an income from a lump sum of money that they currently have
- Derive an immediate return on their investment
- Receive a steady monthly check for the rest of their lives



The immediate annuity allows you to deposit a lump sum and begin receiving regular payments, normally within one year after the deposit. It is usually funded with a single premium, and purchased by retirees with funds they have accumulated for retirement. These annuities can provide a steady stream of payments that will continue for the rest of your life, or for a time period you choose.

When considering an Annuity...

Annuities offer the advantage of no contribution limits (subject to insurance company maximums), whereas IRAs, SEPs, 401(k)s, Keoghs and other qualified retirement plans have annual limits.

Moreover, many annuities have no forced distribution until age 90+, unlike many retirement plans that require distribution by age 70½. In addition, proceeds from annuities are not subject to probate and may be passed directly and immediately to your designated beneficiary.

While we speak here of “guarantees” of your investment, you will still want to consider the financial strength of the insurance company standing behind your annuity, since it is the one guaranteeing the return of principal and interest. Several independent companies (Ex: A.M. Best and Standard & Poor’s) actually rate the financial strength of insurance companies.

Annuities represent a formidable option for someone looking to enhance their retirement planning strategy. Not only do they add to the mix of tax-deferred growth you may be getting from your IRAs or 401(k)s, but they also offer significant investment and distribution options.



The Importance of Compound Interest

Delaying retirement savings can keep you from realizing your retirement dreams because the power of compound interest only works when it has time. A quick estimator is to use the mathematical “rule of 72”, where you divide the interest rate you receive on an investment into the number 72, and the result is the number of years it will take for your money to double.

“The eighth wonder of the world is compound interest.”

- Albert Einstein -

Setting Realistic Expectations

Retirement is like a once-in-a-lifetime vacation, just longer. In fact, if you retire at age 65, you can reasonably expect to live until you're into your 80s. The so-called "longevity bonus" – people living 25 years or more in retirement – puts a tremendous strain on you to accumulate wealth. If you fail to build the assets necessary to sustain your lifestyle for this period you may be forced to compromise the best years of life by cutting back on spending, or worse.



The first step in making sure your expectations for retirement are realistic is having a clear sense of what you'll be spending; both on the everyday costs of living and on the special activities you're planning. As a general rule your total annual expenses in retirement will likely range from **70% to 90%** of your current annual after-tax income.



Costs that could go down

- Home mortgage
- Financial responsibility for children
- Commuting



Costs that could go up

- Healthcare
- Travel or Hobbies
- Second home

A common method to estimate the retirement you will have is to analyze the basic components that pertain to your financial situation as you plan your retirement:

- The number of years until you plan to retire
- The amount you have already saved
- Your estimated income needs (expenses)
- The anticipated inflation rate
- The estimated real rate of return of your investments, adjusted for inflation

Ask your financial advisor for help in projecting your costs, portfolio returns and other key variables.

Managing Retirement Income

Once you have a clear understanding of where your retirement savings will come from, the expenses you will have, and the other factors that will affect you, you can begin building a basic model to help you plan for the income and security that you will need as you grow older.

To begin with, it is helpful to mentally group your expenses into different “buckets” so that you can both better plan and budget your retirement years. Some financial professionals call this an “Income Management Model”, and find it useful to help their clients visualize their future expenses.



Income Management Model	
Variable Expenses	Travel, leisure activities, gifts, discretionary purchases, etc.
Fixed Expenses	Mortgage, utilities, routine health care, recurring bills, etc.
Healthcare Assets	Non-routine costs such as emergency visits & long term care.
Wealth Transfer	Assets designated for your family, estate or a foundation.
Emergency Funds	Immediate cash for unforeseen events such as emergencies or financial opportunities you may want to explore.

You may want to talk with your financial advisor about using a financial worksheet to properly account for your current and future expenses.

The Impact of Inflation

Regardless of what bucket an expense is dumped in, a variable you must contend with as you plan your retirement is inflation. It's likely that the cost of goods and services will increase and you'll need more at retirement than you do now to enjoy the same things.

To offset inflation, your income must rise each year. Assuming you don't go back to work, this income must come from a pool of assets that is also growing.

Inflation and the Purchasing Power of One Dollar			
Average Annual Rate of Inflation			
Years	3%	4%	5%
0	\$1.00	\$1.00	\$1.00
5	\$0.86	\$0.82	\$0.78
15	\$0.64	\$0.55	\$0.48
25	\$0.48	\$0.38	\$0.30

Key points as you begin planning

Planning your financial future can be complicated, with many different ideas, concepts and strategies to juggle. The following are key points that apply to most people:



Outline your savings strategy

If you haven't already done so, the first step is to build your plan as to where savings will come from. Probably the single greatest error people make is to not save, and the best way to start (or continue) saving is to have a plan that outlines how you plan on doing so. You will need to outline your expenses and income sources, and come up with a realistic plan that you can stick to, month after month.

Utilize tax-deferred savings options

The government has made available different retirement plans that allow you to save your money tax-deferred so that it can better capitalize on the concept of compounding. These plans include IRAs, 401(k)s and others – depending on whether you work in the private or public sectors. And if your company offers a match, you should take advantage of it.

Make sure you protect your family

Life sometimes throws you a curveball: an unexpected job loss, an emergency repair of your house, or worse. While you can never insulate yourself from all such shocks, there are several steps you can take that will have you better prepared: a) Build an emergency fund for unexpected expenses; b) Make sure you have a life insurance policy to cover five to 10 times your annual salary; c) Make sure you have an up-to-date will that covers your wishes should you die unexpectedly.

Protect your identity

In today's electronic and online world it is imperative that you take steps to protect yourself from identity theft (from online fraud, offline leaks of personal information, etc.). Some ideas include: a) Stop receiving unsolicited "pre-approved" credit card offers that can be stolen by thieves by calling the opt-out services provided by the credit bureaus; b) Pay and receive bills online as much as possible to eliminate paper trails; c) Shred all documents containing your contact or financial information; d) Monitor your credit scores for changes that may be a result of identity theft.

Plan to consolidate or eliminate high-interest debt

High interest rates seriously affect your ability to build retirement assets, as that money is instead transferred to the banks or other third parties who hold the debt. If your debt is seriously out of control, you may want to consider speaking directly with the credit card company(s) or with a credit counseling service that can help you negotiate your position.

Growing your Assets

It is not surprising that you have a better chance of succeeding in the investment game if you've figured out a strategy. As most of us know, random buying and selling – adding a few stocks here, redeeming a bond there – is rarely an effective long-term strategy for managing your money.

To be successful, you need to follow two seemingly contradictory pieces of advice: stick with your investment strategy, but stay flexible. This means having a long-term perspective but not getting locked into choices that don't work as you expected.



By understanding what different investments can add to your portfolio, the level of income you want to produce, and how much risk you are willing to take, you'll have a stronger opportunity – though no guarantee of course – of ending up where you want to be financially.

This section discusses the following key areas related to growing your retirement assets:

- ***Asset Allocation Options***

The choices you have in allocating your money and planning how your portfolio will meet your current and future expenses.

- ***Retirement Plan Strategies***

Develop a retirement planning investment strategy that fits both your personal investment philosophy and your stage in life.

- ***Common Investor Mistakes***

Avoid the common costly mistakes that many investors and pre-retirees make as they build their retirement portfolio.



Asset Diversification

The essence of asset allocation is diversifying – spreading your money among different types of investments. While not a guarantee of improved performance or protection against investment losses, diversification may help to spread your risk. As such, you may want to consider some combination of fixed-income securities (like bonds) for safety and steady income, and equities (like stocks) to help your money grow and outpace inflation.

Asset Allocation Options

Asset allocation is the process of dividing up investments among different kinds of assets, such as stocks, bonds, real estate and cash, with the objective being to optimize the risk/reward tradeoff based on an individual's specific situation and goals.



The following represent the different ways you can split up your assets

①

Growth Investments

Investments in this group have historically provided greater returns than fixed investments, though usually with higher risk. Ultimately, these investment may help you maintain accumulation potential within your portfolio so your assets can both outpace inflation and last longer than they do. Examples include: stocks, equity mutual funds, hedge funds and exchange-traded funds.

②

Fixed Investments

These types of investments and products provide fixed, stable returns overall – although they may be subject to some risks. They are commonly used by more conservative investors and those seeking wealth transfers. Examples include: bonds, municipal bonds, savings bonds, bond mutual funds and pensions.

③

Insurance-based Investments

These types of products may have either a fixed or growth orientation, and their primary characteristic is an insurance component that provides some form of insurance protection.¹ They generally cost more because of this and usually have tax advantages. Examples include: fixed and variable annuities, life insurance and long term care insurance.

④

Liquid Investments

These products provide quick and easy access to your assets, and generally offer lower risk and returns. Examples include: certificates of deposit (CDs), treasury bills and money market funds.

⑤

Miscellaneous Investments

These products vary widely and may provide income, growth potential, or wealth transfer potential. Examples include: real estate, IRAs, Roth IRAs, 401(k)s, 403(b)s and trusts.

¹ Benefits are backed by the claims-paying ability of and are subject to the financial condition of the insurer.
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Retirement Plan Strategies

Once you have some idea of what your retirement needs might be as well as the retirement savings options available to you, you can start outlining your retirement plan investment strategy. You'll need to carefully consider:

- The amount of time you have left until retirement.
- The level of risk you are comfortable with.
- The amount of money available to invest for retirement.
- The amount of money available for other goals.
- How much time and effort do you want to put forth to manage your investments?



The objective is to develop a retirement strategy that fits both your personal investment philosophy and your stage of life. The following “Model Portfolios”, reproduced from the MFEA (Mutual Fund Education Alliance), provide a general framework to begin your planning.

Retirement Portfolio Up to age 45



- Conservative – 10%
- Growth & Income – 25%
- Maximum Growth – 65%

- By starting early, you can save toward retirement with only a small percentage of your annual income. This is important when there are children to support and college educations to fund.
- With time on your side, you can build a healthy retirement portfolio that benefits from compounding interest, dividend reinvestment and capital growth. You also can afford to be more aggressive, since a shorter-term downturn should make little difference when you invest for a period of up to 20 years.
- Invest in your company-sponsored retirement plan and contribute annually to an IRA.

-
- As retirement approaches, you may want to maintain an aggressive element to your portfolio while gradually repositioning some of your money in less risky income and capital preservation-oriented funds.
 - Maximize contributions to your company retirement plan and IRA.

Retirement Portfolio Age 45 to 60



- Conservative – 20%
- Growth & Income – 30%
- Maximum Growth – 50%

Retirement Portfolio Age 60 and Older



- Conservative – 30%
- Growth & Income – 25%
- Maximum Growth – 45%

- Once you are near or in retirement, you may want to protect what you've accumulated with more moderate and conservative investments. You may also want to position your money so that it can begin to provide income on a regular basis. However, you may want to maintain some investments for long-term growth, just in case retirement turns out to be more expensive than planned.
- Continue contributions to your retirement plan until age 70½.
- Ask your tax adviser how much to begin withdrawing from your savings and retirement plans.

Description of Investment Categories

Maximum Growth

Maximum Growth investments are designed to offer the highest potential for capital growth, income, or both. They are often volatile and involve greater risk, but with the higher likelihood of providing above average returns. This includes investments categorized as aggressive growth or growth; small capitalization stocks (\$100 million or less); international stocks; and stocks in specialized sectors.

Growth & Income

Growth and Income investments are generally high quality investments offering reasonably good potential for capital growth, income, or both. They also offer some degree of safety. These include investments categorized as “growth and income” or “balanced equity/income”, and may include some international stocks & bonds, as well as municipal bonds.

Conservative

Conservative investments generally offer a high degree of safety and stability, with a minimum amount of risk. These include money market accounts, U.S. government bonds and bills, fixed income investments, tax-exempt investments, and laddered bond portfolios.



The danger of being too conservative

As retirement approaches, many people begin shifting a larger percentage of their assets into more conservative investments. Once you are retired, you're more dependent on your investments for steady income. You need to reduce downside risk. Unfortunately, some people become overly cautious, investing too much of their money in fixed-income investments. If their money isn't growing fast enough to offset the effects of inflation, they're actually losing purchasing power every year.

Common Investor Mistakes

In today's world we are flooded by more information and faced with more investment alternatives than ever before. Fortunately, many investing fundamentals have remained unchanged. You can run into trouble when you don't take these fundamentals into proper consideration.



- 1 Underestimating the time horizon for your assets**
Advances in health care and other factors will result in people underestimating how long they might actually live. As a result, many fail to implement a financial plan to account for a longer life span, and they run the risk of depleting their funds before their lives are over.
- 2 Misaligning investment objectives and portfolio strategy**
Aligning your portfolio strategy with your objectives may sound obvious, but many investors employ strategies that work against their objectives. Common mistakes include taking on too little risk or focusing on short-term objectives that are often overly exposed to risk – creating a danger of asset loss during a short-term period of volatility.
- 3 Confusing income needs with cash flow needs**
Income and cash flow are not the same thing, even though many investors think they are. Cash flow is how much money you need for living expenses, whereas income is the amount of dividends and interest earned by your portfolio subject to taxation. The method in which you generate income can have a tangible effect on the growth of your assets, as well as on the taxes you pay, both of which impact your ability to get cash flows.
- 4 Overlooking unintended risk factors**
Many investors are unaware that managing a diversified portfolio of assets can be fraught with hidden risks or over-exposed to certain risk factors that were never properly recognized. Factors such as sector, country, currency, and size can all play a role in a properly diversified portfolio.
- 5 Making investment bets based only on widely-known information**
Investors often forget that the markets efficiently discount all widely-known information. This means that as soon as a piece of information is made broadly available to the public, it's reflected in the stock price.
- 6 Experiencing over-confidence in your investing skills**
It is basic human nature that most investors will focus on their successes and try to forget the mistakes they've made, consistently confirming their personal views rather than maintaining objectivity. Related to this is our innate tendency towards overconfidence – potentially leading to excessive portfolio risks.

Protecting your Assets

This section discusses the key methods and strategies available to protect your assets – in other words to insure that you (and not the government) enjoy the greatest amount of them as possible.



How well you protect your assets is an important variable in determining how much you will have available at your retirement – as well as how much your family or estate will have when you are no longer there.

- ***Insurance***

Understanding the role insurance should plan in your financial and retirement planning, including a discussion of the various types of insurance available.

- ***Estate Planning***

Learning the importance of proper estate planning, what happens when you don't have an estate plan, and a basic understanding of the key variables involved.

- ***Tax Planning & Reducing Taxes***

Reviewing the recent tax law changes by Congress, their effect on your retirement planning, tax-saving opportunities & strategies, and basic tax rules on retirement income.



What happens if you don't have an Estate Plan?

Despite the adverse consequences, 50% of Americans have no estate plan when they die, and an astounding 66% die without a will or trust – known as “Intestate”. In these cases, the probate court appoints an administrator to distribute the deceased person's property according to the laws of that state, meaning that the state will determine the fate of your assets and the financial impact on your family – not you.

The Role of Insurance

Insurance should be an important consideration in your overall financial plan. Simply put, insurance can provide for your family's financial security should something happen to you before you've accumulated enough assets to cover their needs.

While there are many types of insurance – and the type(s) that are right for you depend on your specific financial situation – we focus here on life, disability and long-term care insurance.

Life Insurance

Life insurance is designed to provide family members (beneficiaries) the money they would need to live the life you've envisioned for them, should you die prematurely. When considering the amount of life insurance you need, consider your family's needs for:

- **Immediate Cash**
To cover final medical and funeral expenses, mortgages, other one-time costs
- **Ongoing Replacement Income**
Provide investable assets sufficient to generate the income on which your family depends

Keep in mind that as you grow older you'll probably need less coverage as debts are usually paid off, college costs are gone, mortgages are paid off, etc.



Rule of thumb for insurance coverage

Life Insurance:

Six to eight times your annual income

Disability:

Enough to replace the bulk of your income

Long-Term Care:

Enough to offset annual care costs of \$30,000 to \$80,000

	Term Life	Cash-Value Life
Benefits	<ul style="list-style-type: none">▪ Typically lower premiums▪ Lock in premiums for set time period▪ Can be converted to cash-value policy	<ul style="list-style-type: none">▪ Tax-deferred interest▪ Can be withdrawn or borrowed against▪ Coverage for life regardless of age or change in health
Drawbacks	<ul style="list-style-type: none">▪ Coverage terminates at the end of the term unless you renew.▪ Can be expensive in later years or if health problems develop	<ul style="list-style-type: none">▪ Higher premiums may make it difficult to buy enough coverage▪ Additional fees or charges may apply to loans or withdrawals
Who should consider	A good choice if you're looking for maximum coverage for a specific period of time for the lowest cost	May be appropriate if you would like permanent coverage and a tax-favored way to save

Disability Insurance

Disability insurance is designed to provide replacement income if you're unable to work due to illness or injury. It provides the financial protection to cover your expenses normally covered by your work income. This protection, an important facet of any retirement plan, should be considered for both the short and long term.

While many employers offer short-term disability coverage (usually up to two years), a long-term policy can protect you potentially until retirement or for life.



Did you know?

If you are between the ages of 35 and 65, you have a 30% chance of becoming disabled and unable to work for 90 days or more.

Long Term Care Insurance

Long-term care is a combination of services directed toward meeting the needs of someone who, due to reduced physical functioning and/or reduced intellectual functioning, is unable to carry out everyday tasks without the help of another person.

Long-term care goes beyond medical and nursing care to include all the assistance you could need if you ever have a chronic illness or disability that leaves you unable to care for yourself for an extended period of time – generally over 3 months. You can receive long-term care in a nursing home, assisted living facility, or in your own home. Though older people use the most long-term care services, a young or middle-aged person who has been in an accident or suffered a debilitating illness might also consider long-term care.



Medical Care vs. Long-Term Care

Medical care and long term care **are not** the same. Medical care seeks to cure an individual's *temporary* inability to function fully (often as a result of an acute episode, accident or illness). This requires a curative intervention and post-acute, short-term follow-up *to restore the individual's ability to function*. On the other hand, long-term care clients have chronic conditions and functional limitations that will last for the remainder of their lives.

- At age 65, people face at least a 40% risk of entering a nursing home at some point in their lifetime and about 10% will have a stay of five years or longer.
- Because women generally outlive men by several years, they face a 50% greater likelihood than men of entering a nursing home after age 65.
- The average daily rate in 2014 for a private room in a nursing home was \$205
- The average length of a nursing home stay is 2.4 years.
- At an average daily rate of \$205, an average nursing home stay of 2.4 years costs about \$179,000, making it virtually unaffordable for many Americans.

Estate Planning

The purpose of estate planning is to prepare the transfer of your assets to others upon your death. Estate planning allows you to specify where each of your assets goes upon your death (i.e. beneficiaries), and it should prepare this transfer with the minimum tax consequences while ensuring that the estate has enough liquidity to meet its obligations.



Without a comprehensive estate plan, a significant part of your retirement assets accumulated over the years through work and investments can be lost or given to unintended beneficiaries. State laws and the courts will determine how your assets are distributed if you don't have a plan in place – and their ideas for the distribution of your assets may not be what you had in mind.

Furthermore, estate planning is equally important should you become incapacitated and need someone you trust to make important medical and financial decisions on your behalf.

Reducing estate taxes

Federal taxes on gifts and estates are among the highest assessed on any financial transaction. In addition, some states levy their own estate or inheritance taxes on top of the federal tax. Tax-related issues and rules are thus critical to your estate strategy.

- Every U.S. taxpayer is entitled to an exclusion that exempts a certain amount of assets from estate and gift taxes. The exclusion is expressed as a credit, which you can use to offset the tax on assets you leave to beneficiaries upon your death.
- Currently, the lifetime exclusion amount for gift tax purposes is \$5.12 million.
- For the tax year 2015, you may give up to \$14,000 to as many individuals as you want, free of federal gift taxes. These annual gifts are above and beyond the exclusion amounts you're allowed to give away free of gift taxes.
- The unlimited marital deduction enables married couples to transfer an unlimited amount of assets free of federal estate tax. However, deduction merely postpones estate tax until the second spouse dies – unless you take steps to avoid it.

Understanding the process

The following is a brief summary of some of the key components of estate planning:

Probate

Probate is the legal process to determine who should receive a person's property at death, who should handle their business affairs, and who should care for any minor children and their assets. Probate operates according to state law.



Wills

A will is a written document that describes how its maker wants his estate distributed after his death. It should be noted that wills do not cover assets of title (property, business ownership, etc.) and beneficiary designation (investment and retirement accounts, life insurance, etc.) and these should be covered by proper estate planning. A will can also officially indicate an "executor" who has the job of transferring the assets in the probate estate to beneficiaries.

Living Wills

A living will documents a person's health-care wishes if that person is unable to make his own health-care decisions because he has become terminally ill, comatose, or conscious with irreparable brain damage. A living will sets forth the conditions under which life support can be removed, and it allows a physician to lawfully act upon your wishes.

Revocable Living Trusts

A revocable living trust is a legal arrangement by which an individual shifts ownership of property (such as a home, real estate, stocks, bonds, etc.) from personal ownership into the legal ownership of the trust. The trust is created during an individual's lifetime, but can be changed or terminated at any time. Assets in a revocable trust are subject to estate taxes, but help to maintain privacy and can reduce the cost of probate. If you own real estate in multiple states, for example, the trust can be used to avoid probate in the state in which it is located.

Irrevocable Trusts

Irrevocable trusts are similar to revocable trusts in that they're legal entities that hold assets for their beneficiaries and act as instructed by the grantors, but differ because the contributions are irrevocable and therefore cannot be taken out of the trust by the grantor. Given this downside, why opt for an irrevocable trust? They offer tax advantages that revocable trusts don't, such as enabling you to give money and assets away even before you die.



Did you know?

Wills do not cover assets of title (property, business ownership, etc.) or beneficiary designation (investments, retirement accounts, life insurance etc.), and these should be covered by proper estate planning.

Tax Planning & Reducing Taxes

A critical component of any financial or retirement plan is a comprehensive tax strategy. In a nutshell, the goal of such a strategy is to capitalize on every opportunity the government makes available to you to cut the taxes you will pay on your income, investments, retirement portfolio and estate.



There are three basic ways to reduce your taxes, and each basic method might have several variations. You can reduce your income, increase your deductions, and take advantage of tax credits.

Reducing Income

Adjusted Gross Income (AGI) is a key element in determining your taxes. Lots of other things depend on your AGI (or modifications to your AGI)-- such as your tax rate and various tax credits. AGI even impacts your financial life outside of taxes: banks, mortgage lenders, and college financial aid programs all routinely ask for your adjusted gross income. This is a key measure of your finances. The number one way to reduce taxes is to reduce your income. And the best way to reduce your income is to contribute money to a 401(k) or similar retirement plan at work. Your contribution reduces your wages, which lowers your taxable income, and that lowers your tax bill.

Increase Your Tax Deductions

Taxable income is another key element in your overall tax situation. Taxable income is what's left over after you have reduced your AGI by your deductions and exemptions. Almost everyone can take a standard deduction, and some people are able to itemize their deductions. Itemized deductions include expenses for health care, state and local taxes, personal property taxes (such as car registration fees), mortgage interest, gifts to charity, job-related expenses, tax preparation fees, and investment-related expenses. One key tax planning strategy is to keep track of your itemized expenses throughout the year using a spreadsheet or personal finance program. You can then quickly compare your itemized expenses with your standard deduction. You should always take the higher of your standard deduction or your itemized deduction.

Take Advantage of Tax Credits

Tax credits reduce your tax. There are tax credits for college expenses, for saving for retirement, and for adopting children. You should consult with a Financial Professional or tax expert to see which tax credits you might be eligible to use.

Seven Simple Tax-Saving Strategies

To avoid paying the IRS more than you have to, keep the following in mind:



- 1 Hold appreciated securities more than one year**
To benefit from the attractive long-term capital gains rates, you must have held the asset being sold for more than one year.
- 2 Carry forward losses from previous years**
You can use capital losses to offset capital gains and reduce your tax burden. Many people overlook losses they have carried forward from the previous year's tax return. You can use net losses up to \$3,000 to reduce ordinary income in a single year.
- 3 Plan carefully when exercising Incentive Stock Options (ISOs)**
Develop a plan for exercising your ISOs, taking into consideration tax consequences. Without proper planning, exercising ISOs could make you eligible for the alternative minimum tax (if you weren't already).
- 4 Be diligent about estimated payments**
If you make estimated tax payments, be careful not to underpay or miss any payment deadlines, either of which may trigger IRS penalties.
- 5 Stipulate which securities to sell**
Whenever you sell securities, specify the shares you intend to sell by their purchase dates to help reduce capital gains taxes. If you don't, the IRS will assume you are using the FIFO method (first-in, first-out) which equate to the shares you've held the longest – and which may have the most appreciation.
- 6 Take advantage of tax credits**
Be sure you know about and take advantage of every tax credit you're entitled to. These may include tax credits related to children, adoption, lifetime learning and retirement savings contributions.
- 7 Invest your refund**
If you have a refund coming, use it to fund your long-term goals instead of spending it. Take advantage of the ability to automatically deposit your refund directly into your IRA.

Taxing Rules

Most retirement income is taxed based on the type of income it is. The following is an overview of rules that apply – keeping in mind that these rules can be changed by the government at any time.



Annuity Income

A portion of each annuity payment is considered a return of principal and is not taxed unless it was purchased with pretax dollars. Earnings are taxed at your regular rate.

Capital Gains

Profits from the sale of stock, mutual funds, real estate, and other equity investments are taxed at your long-term capital gains rate, provided you have held the investments for the required period.

Interest Income

Interest income is taxed at your regular rate.

Dividends

Dividends from qualifying stocks and mutual fund distributions are taxed at your long-term capital gains rate.

IRA Distributions

All earnings in a traditional IRA and any contribution for which you took a tax deduction are taxed at your regular rate when you withdraw the money. Withdrawals of nondeductible investments you made are not subject to tax.

Lump Sum Distributions

Lump sum distributions from annuities, pensions, and 401(k)s are taxed at your regular rate, unless you were born before 1936, in which case you may be eligible for income averaging.

Pension Annuity Income

Pension annuity income is taxed at your regular rate.

Rollovers

Rollovers from pensions and 401(k)s remain tax-deferred until you make withdrawals.

Enjoying your Assets

This section addresses the issues, concepts and strategies related to taking money out of your retirement plans, either through early withdrawals or because you have entered retirement. In particular, it discusses:



- Coordinating Finances
- Payout Options
- Managing Distributions & Withdrawals
- Common Distribution Mistakes

Coordinating Finances

To be able to put in place the plans you have for retirement, you must have the financial resources to afford them. The guide to this point has focused on building a retirement portfolio before you retire so that income is available as you need it. Just as importantly, you need to start managing your income after you retire so that your financial life runs smoothly.

If you have a varied portfolio of retirement income investments, you will need to formulate a clear strategy as to how to tap into these resources in the most productive ways. Some things to consider include:

- Understanding the difference between investments designed to be depleted or used during your lifetime, and those better suited to building an estate for future wealth transfer.
- Creating a withdrawal schedule to ensure that your assets last as long as you need them, which could be for your lifetime, or the estimated lifetime of your spouse as well.
- Comparing the tax consequences of different types of withdrawals so you keep more of your assets and pay less to the government – either in income or estate taxes.

Three Types of Retirement Spenders		
Preserve the Principal Those who live on their earnings only, trying never to use any of their principal, or amount they invested.	Spend it All Those who plan to spend all their money, both principal and earnings, while they are alive – also known as total liquidation.	Mental Accounts Those who earmark portions of their retirement nest egg for specific expenses, known as selective allocation.

Payout Options

As you would expect, there is no universal right answer as to how to take your money out of your retirement plans.

There are several options you have available, each with their distinct advantages and disadvantages that you will have to match with your specific financial situation and needs. The primary options include:



Retirement Choices	Advantages	Disadvantages
Pension Annuity An annuity is a regular, monthly payment, usually for your lifetime	<ul style="list-style-type: none">• Payments come in on a regular basis• Option to spread payments over your spouse's lifetime as well as your own	<ul style="list-style-type: none">• Tax due on amount you receive each year. Could potentially push you into a higher tax bracket• Some plans could be unsafe or under-funded – potentially leaving you less than expected.
Periodic Payments Periodic payments are installment payments of roughly equal amounts paid over a specific period, often 5 to 15 years	<ul style="list-style-type: none">• Assurance of regular payments at pre-determined intervals• Larger payments because of shorter time frame• Option of rolling some (but not all) payments into an IRA	<ul style="list-style-type: none">• Commitment to payment schedule limits ability to get lump sum if needed• No assurance of lifetime income• Taxes could be at highest rate• Inflation could erode future purchasing power
Lump Sum A lump sum payment is a cash payment of the money in your retirement account	<ul style="list-style-type: none">• Control over investing and gifting your assets• Eligible for income averaging (if born before 1936)• Not dependent on employer's financial health• Can invest to take advantage of long-term capital gains rate	<ul style="list-style-type: none">• Tax due immediately• Potential of early retirement over-spending• No assurance of lifetime income• Earnings on assets no longer tax deferred
IRA Rollover An IRA rollover is a lump sum payment deposited into an IRA account	<ul style="list-style-type: none">• Money remains tax-deferred• Self-directed nature means you control how it is invested• Freedom to take distributions as needed• Protection from early withdrawal penalties on lump sum if you're not yet 59½	<ul style="list-style-type: none">• May pay more tax over time than you might have paid on the lump sum• Withdrawal schedule required after you turn 70½• Transfer required by employer to avoid 20% withholding requirement

Managing Distributions & Withdrawals

Understanding and properly managing your retirement plan distributions can play an important role in your ability to reach your retirement goals.



Because we cannot cover all the different types of retirement plans in this guide, we focus this section on the most widely used plan, the IRA (Individual Retirement Account). The section includes:

- **Rules, Regulations & Penalties**
- **Distribution & Withdrawal Strategies**
- **Estate Implications**



Rules, Regulations & Penalties

IRA distributions are taxed under the rules of IRC Sec. 72. This means that the taxpayer is entitled to recover any non-deductible IRA contributions tax-free when distributions begin. Other than this tax-free return of the "investment in the contract," all IRA distributions are includable in gross income in the year received. In addition:

- Distributions from an IRA are not subject to the 20% withholding requirements of a 401(k).
- Premature distributions made prior to age 59½ are subject to a 10% excise or "penalty" tax in addition to the regular income tax on the amount of the distribution (See Box).
- Minimum distributions from an IRA must begin by April 1st of the year after the year in which the taxpayer reaches age 70½, or a 50% excise tax is levied on the difference between what was paid and what should have been paid out under IRA minimum distribution rules.
- Estate taxation: The value of the IRA is included in the gross estate of the deceased owner. IRA distributions to a beneficiary are taxed in the same manner as if received by the IRA owner.



Did you know?

The IRS allows you to withdraw money from your IRA before age 59½ and avoid the 10% excise penalty, **under certain conditions and if you follow certain rules.**



Distribution & Withdrawal Strategies

Whether you are about to retire or have already done so, the need for financial planning remains critical. If you retire in your mid-60s, you can reasonably expect to live another 25 years. The challenge is to stretch your assets over a time period that may be half as long as your entire working career.

Preparing a plan to help avoid the **following key risks** that could threaten your retirement income can help your money last throughout your retirement.

Overspending

The amount you spend has an enormous effect on whether your money will last throughout your retirement. A slightly higher rate of withdrawal can significantly decrease your years of retirement income. As a hypothetical example, a portfolio of \$1 million with a 4% annual withdrawal rate could provide 6 more years of retirement income than a 5% withdrawal rate.

Not Planning for a Long Retirement

You may end up spending more years in retirement than the years you spent working. Your spending habits and investment strategy need to take this into consideration.

Market Risk

Retirees normally have a more conservative approach to investing, for example, investing in bonds and CDs. Keep in mind that this can potentially reduce the opportunity for growth of your assets during your retirement years, and can eliminate the hedge against inflation that diversified stock portfolios offer.

Inflation

Even a 3% inflation rate can have a large impact on purchasing power. For example, a retiree with roughly \$72,000 of living expenses in 2015 would need nearly twice as much (\$150,000) to meet expenses 25 years later.

Health Care Expenses

A 2012 study estimates that a couple retiring today at age 65 without an employer-funded retirement health plan will need current savings of \$160,000 to cover their expected health care. Moreover, roughly 50% of Americans will be admitted to a nursing home at some point in their lives, with half staying up to 2.4 years.

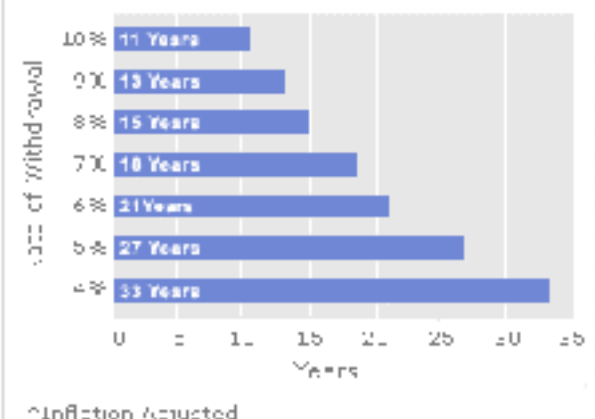


Did you know?

That over 80% of Americans fear outliving their assets, and almost 70% consider this their #1 financial worry.

Source: Prudential Financial

Taking too high of a distribution rate^x can derail your plan



In general, a long-term investment strategy should be maintained, with the longer you keep your savings invested, the better. Tax-deferred compounding is a powerful way to keep invested money growing, since any earnings are not taxed until withdrawn.

Furthermore, a good defense against outliving assets is to adopt a conservative annual savings withdrawal rate of no greater than four or five percent of retirement assets.



Estate Implications

Some of the more complex issues surrounding your rollover and distributions deal with how your estate (or your family) can be affected by decisions you can take.

One potential issue is what happens when you name a spouse (or child) as beneficiary to your IRA. By doing so, you inflate their assets and potentially expose them to estate tax. If your solution is to leave your IRA to your estate instead, you need to know that the IRS requires the account to be rapidly distributed rather than potentially being stretched over the life of your beneficiaries.

One solution to this problem would be to leave your IRA in a trust and appoint a trustee (normally an accountant, financial advisor, attorney, etc.). Within the boundaries of your wishes and IRS-required minimum distributions, the trustee can be empowered to decide who among your beneficiaries will get the IRA and how much they get.

There are many types of trusts (Generation-Skipping, Bypass, etc.), each with varying tax ramifications. You should consult with an expert in this area before proceeding.



Do you need an IRA Asset Will?

Beneficiary designation forms are often insufficient in carrying out your wishes should your beneficiaries divorce or die. For example, let's say you have two sons, and make them beneficiaries for your IRAs. Each has a son that you list as "secondary beneficiary." If one of your sons were to die before you did, what would happen to his half of your IRA when you die? It could either go to your deceased son's child or to your surviving son – the answer would not be clear and might ultimately be decided by a court.

Common IRA Distribution Mistakes

The following are common IRA distribution mistakes. Many times the mistakes are easily avoidable – and can even cut your taxes on IRA withdrawals.



- 1 Never take more than required from your plan(s)**

You own two buckets of money: money that's been taxed ("regular money") and money that has not been taxed ("IRA money"). When you spend \$1 of regular money, the cost is \$1. When you spend \$1 of IRA money, the cost to you is about \$1.33 because you need to pay approximately 33% of income tax on the amount you withdraw. Therefore to reduce your taxes consider not withdrawing anything more than the required distribution from your IRA money, even if it means spending regular principal for living expenses.
- 2 Mistakes in selecting beneficiaries**

Most people select their spouse (or children) as beneficiary for their IRAs. As simple as this seems, it can create problems. When you leave an IRA account to your spouse, it inflates his or her assets – and if he or she later dies with an estate exceeding \$5.0 million (and indexed for inflation starting in 2013), that person would pay estate tax. Solutions might include leaving your IRA to your estate (although the IRS requires rapid distribution) or in a trust where the trustee can be empowered to determine distributions.
- 3 Giving to charity**

If you want to donate money to charity, do it from your IRA money. The Pension Protection Act provides IRA owners who are 70½ or older the opportunity to make income-tax free IRA distributions directly to a charity. Also, when you leave your IRA to non-charitable beneficiaries, they will pay both income and estate taxes on the distributions, as the money has been growing tax-deferred to that point.
- 4 Shelter your retirement money from estate tax**

Many people have reached age 70½ and are taking only the minimum required distributions from their IRAs. By taking the minimum required, their income taxes are minimized. But depending on your situation, this tactic can create another problem: the IRA balance continues to grow and it could be subject later to double taxation – income and estate taxes. One solution would be to take a larger annual distribution from your IRA, pay the taxes on the amount, and invest the proceeds in financial products owned outside the estate – certain of which generate proceeds which could potentially be free of both estate and income tax.

Summary

When you plan your retirement, you're not just planning for yourself, but for your family as well. Financial decisions are much more complex because they affect not only your future, but also the future of the people closest to you. It's both a challenge and a responsibility – and a time when objective help can mean the most.



We hope this guide has provided a good place to start. Our goal was to help you focus on your complete financial picture and the issues you should be considering right now. But don't stop there. Making informed decisions involves gathering as much relevant information as possible, discussing things with your family, and then seeking professional guidance and advice.

Planning for retirement is complex and time consuming, but is undoubtedly one of the most important things you'll do in your life. We all have dreams of how we want our retirement years to be. With careful planning you'll be in a better position to realize those dreams.

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DISCLAIMER

The information, general principles and conclusions presented in this guide are subject to local, state and federal laws and regulations. While every care has been taken in the preparation of this guide, it remains your responsibility to insure that information is accurate and timely. This guide should not be used as a substitute for the professional advice of an attorney, accountant, financial planner, or other qualified professional.