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21st century retirement

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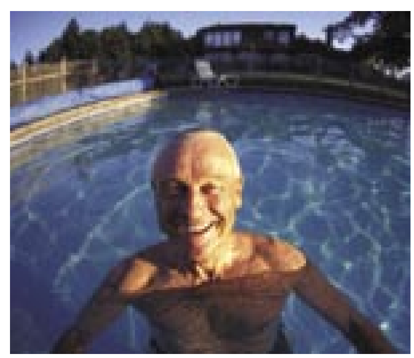
Gearing Up for the Golden Years

Will you have enough money for your retirement? This is a major concern facing many Americans, as retirement looms closer on their financial horizons. If you're facing a retirement shortfall, you're not alone. Many American households will retire on less annual income than they may need to live comfortably during their "golden years."

An often-used rule of thumb suggests that you may need at least 60% to 80% of your pre-retirement income to maintain your current lifestyle. The following steps can help you get a clearer view of your retirement finances, and can help you identify any needed adjustments to your savings strategy.

1) Project a retirement budget, but don't compromise your standard of living. Ask yourself key questions, such as how you would meet future medical expenses, housing costs, and, of course, travel and entertainment. This will give you a target for your budget.



2) Review your assets to see if you are satisfied with their performance. Identify your lowest performing assets by listing them in order of their average rates of return. Consider reallocating your assets to weed out the poor performers. Conservative instruments such as **certificates of deposit (CDs)** and **savings accounts*** are relatively safe, but their growth may not keep pace with inflation. Bear in mind, however, that seeking increased returns may entail assuming greater risk. In short, you will have to choose your savings strategies according to your risk tolerance and the time you have left until retirement.

3) Consider moving to a more affordable locale that could potentially free up additional retirement capital by lowering your cost of living.

4) Remember to include ***all*** your resources on your balance sheet. Some of these untapped sources may be the following:

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Retirement Plan Assets and Multiple Taxation

Retirement planning generally focuses on providing ample finances to support your desired lifestyle after your departure from the workplace. However, it is important to realize that, in all likelihood, your retirement savings may constitute a very large portion of your total assets. Upon your death, items such as your personal savings and property may ultimately be subject to varying degrees of estate taxation. Like all other assets, your retirement savings will generally be unable to avoid this estate tax trap. However, retirement plan assets will also be subject to ***income*** taxes in addition to ***estate*** taxes.

Should You Be Concerned?

Historically, high net worth individuals have been most concerned with estate taxation. However, if you have more than the applicable exclusion amount of $2,000,000 in 2006, then estate tax implications should be reviewed with competent counsel. As a result of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), this exemption will gradually rise to $3,500,000 in 2009. In 2010, the estate tax is scheduled for repeal, but for one year only. Unless Congress takes further legislative action, the estate tax will be reinstated at the higher of pre-EGTRRA rates with an exemption of only $1,000,000. With advance planning, you may be able to minimize your estate tax liabilities. Since your retirement plan assets are part of your estate, they may also be exposed to estate taxation. Estate taxes will be based on the full, ***pre-income tax*** value of the plan assets. In addition, income taxes will also be due on ***pre-estate tax*** values.

A distribution of the qualified plan or Individual Retirement Account (IRA) balance at an employee's or IRA owner's death can be income in respect of a decedent (IRD). Generally, IRD must be included in the gross income of the recipient beneficiary, although there is a deduction for estate and generation-skipping transfer (GST) taxes paid on the income. If the income is distributed over a number of years, only a proportional amount of the deduction is allowable each year.

Substantial retirement plan assets, for which no advance planning has been made, may ultimately be subject to income and estate taxes at a combined marginal rate that could potentially approach, or even exceed, 70%. That translates into nearly three out of every four dollars of your retirement savings going toward paying taxes rather than funding your retirement or passing to your heirs.

Are There Any Alternatives?

Implementing a tax strategy geared toward passing retirement plan assets ***in full*** to heirs can be rather challenging, especially if you will depend primarily on your plan assets to meet your retirement income needs. However, those who are fortunate enough not to need the bulk of this income may consider taking all, or part, of the balance in a lump sum. Amounts not distributed may be directly transferred from the plan to an IRA. Even though substantial income taxes will be due in the tax year of the withdrawal, the after-tax proceeds may be slowly gifted directly to your heirs free from additional taxation.

This gifting program can involve either ***direct*** transfers or transfers to an irrevocable trust established to benefit the heirs (gifts of $12,000 per individual or $24,000 for married couples in 2006, indexed annually for inflation, can be made annually without incurring a gift tax). This type of approach can help minimize, or possibly even eliminate, future estate tax liabilities. Furthermore, in some cases, pension assets can be replaced for heirs "estate and income tax free" by incorporating life insurance into a sound financial and estate plan.

It Pays to Plan

Saving for retirement requires hard work, foresight, and diligence. Once you have built and grown your retirement assets, the challenge becomes asset preservation. With the assistance of qualified legal, tax, or financial service professionals to review all the legal and tax consequences of your planning decisions, you may be able to enjoy a comfortable retirement while simultaneously passing on a sizable nest egg to your loved ones.

How Social Security Affects Your Retirement

When contemplating retirement, you, like many other people today, may be counting on Social Security benefits to provide you with a basic level of income. The *age* at which you choose to retire is an important part of the equation. In addition, there are many other issues to consider when making that choice.

Some of these issues include the following: 1) How would an early retirement, for example at age 62 vs. age 65, affect your Social Security benefits? 2) How will those benefits be taxed? and 3) Is it in your best interest to continue working to earn extra income when your benefits could be reduced based on how much you earn?

What's the Maximum?

As most people realize, Social Security provides only a *base level* of income. The maximum benefit for a person who retires in 2006 at full retirement age (age 65 and 8 months) is $2,053 per month. In comparison, the maximum benefit in 2005 was $1,939 per month. It is important to note that the benefit for a nonworking spouse is only 50% of that amount.

Should You Delay Retirement?

If you delay retirement past your **full retirement age**, your monthly benefit will increase, based on the age at which you elect to take retirement benefits. But, upon attainment of age 70, the benefit increase no longer applies, even if you continue to delay payment.

Taking benefits at age 62 (considered early retirement) is appealing to many people. However, some continue working and earning additional money to supplement basic Social Security income. Here is where you need to be careful. When you do earn additional income, you may forfeit some of your benefits if you earn more than the maximum amount allowed. If you decide to take early retirement benefits from Social Security at age 62, your monthly benefit amount will be permanently decreased by 20% to 30%, based on your full retirement age. If you are under the full retirement age, receive Social Security benefits, ***and*** earn additional income, your benefits would be reduced by $1 for each $2 you earn over $12,480 in 2006. The year in which you attain the full retirement age, your benefits would

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The ABC's of Estate Planning

The process of estate planning may be perceived as something that only very affluent individuals should do before they die. However, estate planning is an important part of life, even for those individuals of modest means. The greatest benefit may lie in knowing that your wishes will be respected. Naming your heirs—and relieving them of unnecessary costs and stress by carefully designating *which* assets they will receive—is preferable to having a court make such decisions for you.

The estate planning process not only includes designating your heirs, but may also include establishing vehicles—such as **trusts**—to protect your assets and minimize estate taxation. This will also help ensure your assets go to the people you care about. In the event of mental or physical incapacity, an estate plan can designate other people to help care for you and your property. Two important tools are a **durable power of attorney** and a **health care proxy**. You may also want to include a **living will** among your estate planning documents, so your health care providers and hospital know your wishes regarding the possible use of life-sustaining measures.

Regardless of your net worth, there are a number of reasons why you should consider an estate plan. Take steps ***now*** to help ensure your wishes will be followed and that provisions will be made for your dependents and loved ones.

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- **Home Equity.** If you sell your home, the Internal Revenue Service (IRS) allows you to keep up to $250,000 capital gains tax free ($500,000 if you file a joint tax return), which you can then use to boost your retirement savings, provided you have owned and occupied the residence as a principal resident for an aggregate of at least two of the last five years before the sale.
- **Highly-Appreciated Non-Income-Producing Assets.** With careful planning, you may be able to convert non-income-producing assets, such as stocks or real estate, into income-producing assets.
- **Valuable Collectibles.** Specialty items, such as antiques, dolls, stamps, or a coin collection, may be converted into cash, but only if you're willing to relinquish them at some point. Evaluate what their worth will be to you in your retirement years.

5) Consider delaying your retirement. Each additional year you wait will help reduce your budget shortfall; in addition, it will give you an added chance to increase your savings.

The only way to deal with a potential retirement shortfall is to plan carefully and begin acting ***now***. Once you've firmed up your strategy, go ahead and put it into effect. If you start now (and it's never too late), your golden years could be just as you have planned.

**Note*: Bank CDs and savings accounts are FDIC insured up to applicable limits and offer a fixed rate of return.

how social security affects your retirement

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be reduced by $1 for every $3 earned over a certain amount ($33,240 in 2006). Upon attainment of full retirement age, you may earn as much as you like and Social Security benefits are not reduced.

Full Retirement Age—It's Changing

For a long time, the retirement age has been 65. Due to longer life expectancies, that age will increase in gradual steps until it reaches age 67. This change began in the year 2000 and affects people born in 1938 and later. Age 62 still remains the earliest you may begin to receive Social Security retirement benefits.

For Your Information

The Social Security Administration (SSA) provides a free service that allows you to check the accuracy of your Social Security records.

You can call Social Security at 800-772-1213, or visit their website at www.ssa.gov. You may request a ***Social Security Statement*** (Form SSA-7004). Once you complete the request online, or print the form and mail it in, they'll provide you with a yearly breakdown of salary credited to you since 1950. They'll also include an estimate of benefits to be received when you retire.

The information provided is not written or intended as tax or legal advice and may not be relied on for purposes of avoiding any Federal tax penalties. Individuals involved in the estate planning process should work with an estate planning team, including their own personal legal or tax counsel.

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