

# 21<sup>st</sup> century retirement



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These days, it is not unusual for many people to live 20 or more years beyond normal retirement age. When seniors reach their eighties and nineties, plans that were satisfactory at age 65 may require a second look. Some areas of special concern to older seniors and individuals with aging parents or loved ones are asset management, health care, and living arrangements.

### Managing Assets

Many older seniors may find themselves unable to continue managing their assets. A variety of arrangements are possible to transfer that responsibility to others, among them:

- **Revocable and Irrevocable Trusts.** Seniors who wish to *retain control* over their property, while delegating the daily management to others, may want to consider a **revocable trust**. This arrangement would allow the senior to monitor the management of his or her assets, yet it offers the flexibility to change the trust as needs and circumstances warrant. As added protection, a revocable trust may remain unfunded, as long as the senior is legally competent. Alternatively, an individual who is willing to *relinquish* ownership of assets altogether could establish an **irrevocable trust**.
- **Durable Power of Attorney.** This mechanism allows seniors to designate a trusted relative or friend to make legal and financial decisions for them in the event of disability or cognitive impairment. The powers granted may be limited or broad in scope, and they may vary from state to state. Some financial institutions are reluctant to recognize durable powers of attorney, so it is worthwhile to thoroughly explore this option beforehand.
- **Informal Arrangements.** Some seniors transfer property *informally* to their heirs—in many cases free of gift taxes—in exchange for being taken care of for the rest of their lives. This arrangement, however, should be approached with caution. Even well-meaning adult children may unintentionally deplete assets through poor management, divorce, or creditor claims. Once the assets are gone, the senior could become dependent on the goodwill and financial assistance of relatives.

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## Rethinking Retirement

For many people, the image of retirement is embodied in the term “golden years.” In this idealized conception, a leisurely phase of life follows the many years when working and raising children were the dominant themes. It is based on the assumption that people expect to enjoy themselves in retirement, and that work, as we commonly know it, should be the province of younger people.

Since so many of us cite retirement planning as our main reason for long-term saving, we should have an idea of what *kind* of retirement we envision. Is the “golden years” model valid for those of us still years away from retirement, and if it is achievable, is that what we really want? Rethinking retirement means examining the assumption of the “golden years” model in the context of today’s reality to see how it applies to what we envision for ourselves.

### Challenging the Conventional Wisdom

Embedded in the conventional notion of retirement are important assumptions about work, money, and retirement standards of living. For previous generations, work was thought to be something you did for about 40 years (until roughly age 65), and then, suddenly, you never had to (or wanted to) work again. A company pension, Social Security, and some savings were generally believed to provide enough income for funding a comfortable lifestyle in retirement—the “golden years” would be filled with leisure, travel, and recreation.

There is absolutely nothing wrong with pursuing that goal if that is what you want. However, for some people, work is too much an integral part of their sense of “self” to be so suddenly cast aside. Moreover, with so much of their daily lives structured around going to work, some people have difficulty



contemplating life without that structure.

Furthermore, changes in traditional company pension plans (i.e., the decline in defined benefit plans and the rise of defined *contribution* plans) are bound to jostle assumptions about how money will be accumulated for retirement. Not only has the responsibility for funding retirement shifted from employer to employee, but long-term savings must also compete with other savings objectives (e.g., a down payment on a house, college funding for children) and current consumption needs. And, who knows what Social Security will provide for today’s younger workers?

Finally, part of the “golden years” model is an assumption that one’s standard of living will be sustainable in retirement, and it very well may be for some. However, another way to look at retirement is to ask what standard of living can be maintained based on different levels of projected resources. This type of multi-model approach might help you see what is possible (and what may be unrealistic) in your situation and may help you focus on more realistic retirement priorities. For some people, downsizing their standard of living in retirement may be just as valid as maintaining a preretirement standard may be for others.

### Think “Unretirement”

*Unretirement* is a term used to describe working in some capacity after your career has ended. Aside from money earned from working, unretirement may help you maintain a feeling of being connected to the world and may help fulfill your sense of purpose. Moreover, unretirement may provide the opportunity to do something completely different from your former career and to do it on a *flexible* basis (e.g., part-time work, job-sharing, or telecommuting).

For some, unretirement may be a matter of choice; for others, a matter of necessity; and for still others, a combination of both. The important thing is to define your vision of the “golden years” in terms that make sense to you, rather than in terms of generalized societal expectations that may not suit your needs. ■

## Riding the Carousel to Retirement

You're certainly not alone if the variety of **Individual Retirement Accounts (IRAs)** causes you to wonder which type of IRA, or which combination of IRAs, would work best to meet your goals. You have several options, including what has even been called the "American Dream" IRA—the **Roth IRA**. Let's take a moment and explore the IRA carousel.

**Traditional IRAs.** Contributions to these IRAs may be tax deductible and are limited to \$4,000 in 2007. However, the deductibility of contributions is generally dependent upon one, if not all, of the following factors: whether or not you (the IRA owner) are participating in an employer-sponsored retirement program, your tax-filing status, and your **adjusted gross income (AGI)**—taxable gross income less any possible deductions. If you withdraw money before age 59½, you pay a 10% federal income tax penalty (on top of any income tax due) unless an exception applies. Qualified situations include first-time home purchases, disability expenditures, medical expenses exceeding 7.5% of your AGI, and qualified higher education expenses. At age 70½, contributions cease, and mandatory minimum withdrawals must begin by April 1<sup>st</sup> of the year following attainment of age 70½.

**Roth IRAs.** Similar to the traditional IRA, contributions to a Roth IRA are limited to \$4,000 per year in 2007. However, contributions to a Roth IRA are *not* tax deductible. (Note: The \$4,000 limit applies to the total of all IRAs that a per-

son may hold in a given tax year.) Contributions phase out for single filers with AGIs between \$99,000 and \$114,000, and for joint filers with AGIs between \$156,000 and \$166,000. Contributions may be made for life (i.e., need not stop at age 70½), and no withdrawals are required until one year following the death of the participant. In addition, qualified distributions, including earnings, are tax free if you've maintained your account at least five



years and are older than age 59½. Withdrawals made prior to age 59½ may be subject to a 10% federal income tax penalty, unless certain qualified exceptions apply.

**SIMPLE IRAs.** Many small businesses have found the popular **401(k) plan** costly to administer. A more affordable alternative may be the Savings Incentive Match Plan for Employees (SIMPLE), under which an eligible employee can defer up to the lesser of 100% compensation or \$10,500 per year for 2007 (indexed annually for inflation). A SIMPLE IRA must provide immediate **vesting**, and an employer can either **match** employee annual contribu-

tions on a percentage basis, up to 3% of compensation, or provide a **nonelective contribution** for all employees of 2% of compensation. There are no annual tax filing requirements and no need for **anti-discrimination tests**. In addition, both owners and employees can put away more than they could with a regular IRA.

**SEP IRA.** The Simplified Employee Pension (SEP) is also simple to administer. Only employers contribute to a SEP. Congress created the SEP primarily so small businesses could provide a retirement plan without burdensome administrative costs or government paperwork. Contributions to a SEP are limited to 25% of compensation (earned income for self-employed) of up to \$225,000 in 2007 or a maximum of \$45,000 (in **sole proprietorships** and **partnerships**, the limit to the owners' contributions is 20%). As a result, a SEP IRA may allow higher levels of contributions than any other IRA plan.

Annual IRA contributions for tax year 2007 can be made up until the filing deadline in April 2008. In a world where many clamor for tax simplification, you may find that retirement planning is quite complex. Therefore, an IRA can be attractive for its versatility and ease of implementation. Because Congress has provided many options for individuals and small businesses to establish retirement plans, you may discover it's easier than ever to find the "right" IRA to fulfill your objectives. ■

## elder care issues—planning for today and tomorrow

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### Health Care

With health care costs spiraling upward and people living longer than ever before, seniors of advanced age should anticipate facing high medical costs. The federal government provides *some* health care benefits through the **Medicare** and **Medicaid** programs, but seniors need to understand the *coverage* those programs may provide and what *costs* they can expect to face.

**Medicare Part A** covers inpatient services at hospitals and other health care facilities. It is provided automatically, at no cost, for seniors age 65 and older who are eligible for Social Security, and at a substantial cost for those who enroll independently. **Medicare Part B** provides additional health care coverage that is *optional* and must be paid for separately.

Eligibility for **Medicaid**, which covers long-term nursing home care, depends on financial need. Seniors may require professional assistance in managing their income and resources to meet Medicaid's strict eligibility requirements.

### Living Arrangements

Older seniors who are able to care for themselves and have the means to do so may wish to remain in their own homes. Public services may be available to help prolong the period of self-care.

However, elders who are unable to live independently have several alternatives to consider. **Assisted living/residential care facilities** provide a protected environment with a semblance of independent living. Generally, some daily meals are provided in a communal din-

ing room, and minimal assistance, such as with washing, dressing, or medications, is available. **Continuing care communities** offer a combination of independent living and health care support. If family members work, **senior daycare centers**—either publicly or privately funded—can provide opportunities for socialization and activities to relieve boredom. In some cases, bringing in outside help may be the solution.

### Periodically Review Plans

It is wise for aging seniors and/or family caregivers to periodically review existing financial, health care, and living arrangements. In the transition to the later stages of life, fresh needs and concerns may call for revisiting plans made at an earlier age. ■

## What Is Vesting?

**V**esting refers to an employee's entitlement to funds contributed to a qualified, employer-sponsored retirement plan. An employee's contributions—and the earnings on these contributions—are fully vested from his or her start in the plan. On the other hand, an employer's matching contributions may vest according to the employee's length of service. Thus, an employer can arrange his or her

contributions to follow a vesting schedule that rewards loyalty by fully vesting plan participants after a specified number of years.

For plans established after 2002, employer contributions must vest 100% after three years of service or within six years, beginning at 20% after two years of service and then increasing 20% annually. Plans begun before 2002 must permit 100% vesting after five years of service

or within seven years, beginning at 20% after three years and then increasing 20% annually. Different vesting requirements apply to certain "top-heavy" plans. While minimum vesting requirements must be met, an employer may choose to allow employees access to their full benefits on an accelerated schedule. Furthermore, an employee who reaches normal retirement age (NRA) is entitled to 100% vesting. ■

**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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