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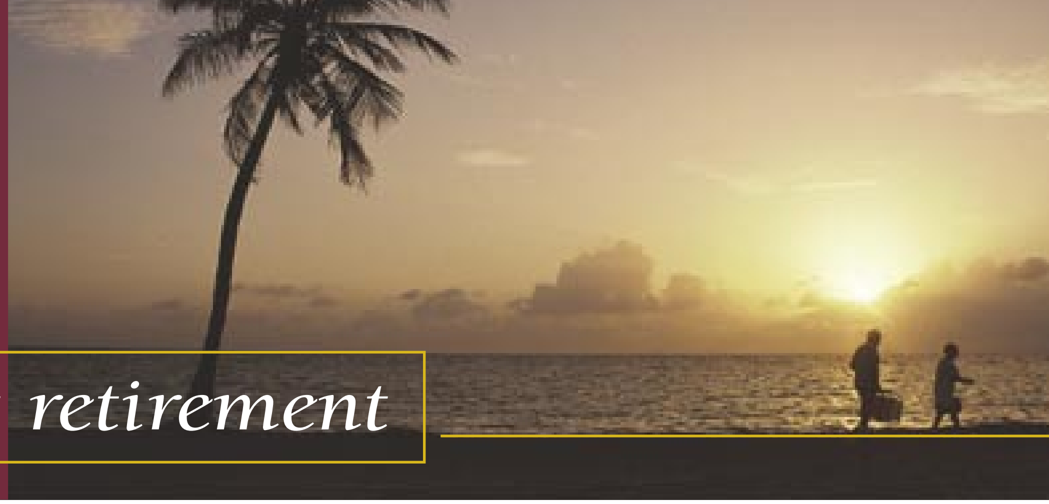
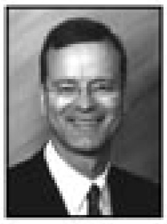


21st century retirement



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Americans Remain Confident about Retirement, But Are They Ready?

Today's workers will experience a retirement different in many ways from the post-work years of past generations. While most Americans realize this, many are not adjusting their financial strategies, according to the *2007 Retirement Confidence Survey (RCS)*,[1] sponsored by the nonpartisan Employee Benefits Research Institute (EBRI) and survey research firm Matthew Greenwald & Associates.

Jack VanDerhei, a Temple University professor, EBRI fellow, and coauthor of the RCS, said, "This year, we found that a substantial number of workers realize that the shift from traditional pensions to 401(k) plans affects them personally. Unfortunately, only 24% of those affected indicate that they will save more on their own, and only 8% indicate that they will save more in the employer's plan as a result of these changes. EBRI research suggests that the vast majority of employees are likely to need some type of additional savings if they hope to end up with the same amount of retirement savings they would have expected prior to the change."

Nearly half of the workers surveyed (45%) are less confident about the money they can expect from a traditional pension—18% are much less confident, and 27% are a little less confident. While 16% reported their confidence has increased, 28% said their confidence remains unchanged. Of those workers who have experienced a reduction in employer benefits in the past two years (17%), only 32% reported they are saving more to account for the loss.

Furthermore, some workers appear overly optimistic about their future benefits. Only 41% of workers reported that they have a defined benefit plan (through their own employer or through a spouse), but 62% expect to

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Protect Your Estate with an Irrevocable Life Insurance Trust

Many estate planning practitioners view the **irrevocable life insurance trust (ILIT)** as one of the most flexible and useful tools they can put to work on behalf of their clients. While the issue of where the ILIT fits into the overall estate planning process can be somewhat confusing, a closer look reveals its potential advantages.

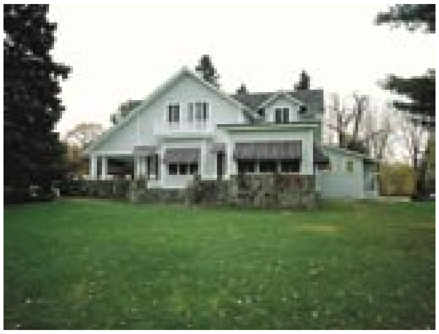
Inheritance Comes with a Price

Typically, the amount of estate planning necessary is dictated by the size of your assets. For instance, if you are married, a properly drafted and executed **will** and **inter vivos (living) trust** for you and your spouse—coupled with proper asset ownership—will only ensure the first $4,000,000 (for 2007) of your estate will get passed to heirs free of estate taxes.

Thus, estates exceeding $4,000,000 for married individuals in 2007 (or $2,000,000 for single individuals) will incur estate taxes. For this reason, the ILIT has become a popular technique to help fund the payment of estate taxes and to ensure assets are passed to your family in full. (*Note*: Under the **Economic Growth and Tax Relief Reconciliation Act of 2001**, the $2,000,000 **applicable exclusion amount** for 2007 will increase to $3,500,000 in 2009.)

Opportunity Knocks

When properly implemented, the proceeds of an ILIT will not be included in your estate. They will be payable to the ILIT's **beneficiaries** (generally, children and grandchil-



dren) without incurring any estate tax consequences.

An ILIT can purchase a life insurance policy on your (the donor's) life, with the policy premiums funded by annual gifts you make to the ILIT. Consequently, your **annual gift tax exclusion** ($12,000 annually per donee and $24,000 for gifts made by husband and wife) can be used to maximize gifts to the ILIT.

In more advanced uses, an ILIT can be a useful strategy to help ensure continuity in a **closely held business**. For instance, passing a family-owned business of substantial value to heirs may be hampered by potentially large estate taxes. These taxes, in some instances, may require a forced sale of the business in order to raise the necessary cash to pay them. However, an ILIT can purchase a life insurance policy on the owner, with the death benefit providing the cash needed to help meet estate tax obligations and keep the business in the family.

Securing Your Future

Estate planning is an *ongoing* process that requires a personal commitment in order to help ensure your desired intentions are fulfilled. Although an ILIT can be an integral part of your overall plan, it is important to understand that effective estate plans are usually the result of the coordinated efforts of your insurance, legal, and tax professionals.

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receive income from this type of traditional pension. Fewer companies offer defined benefit plans today than in the past, and this declining trend is expected to continue.

A majority of workers are currently saving for retirement (60%), but less than half (43%) have tried to calculate their accumulation needs for retirement. While 66% of workers reported having saved money, at some point, for retirement, this percentage is down from 70% in 2006.

Younger workers tend to have less saved than older workers: 68% of respondents under the age of 35 have less than $25,000 saved or invested; 48% of those age 55 or older have more than $100,000 saved. According to the survey, the total value of savings and investments was higher for those who had estimated their financial needs for retirement and for those who had higher incomes and more education.

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Over 50? Retirement Savings Strategies

The baby-boom generation is about to trail blaze into another new era: retirement. Never a generation to accept the status quo, they are ready and set to redefine the outmoded image of "golden years." Forget about endless days spent in repose. This group seeks an unprecedented time of adventure, travel, creativity, and new business pursuits. While these exciting changes will redefine aging, will the baby boomers be able to finance their adventurous plans? Today, many age 50 and older have still not begun to save for retirement or have amassed insufficient funds.

If you are in this age group and find yourself facing an underfunded retirement, it is never too late to take charge. There are plenty of things you can do—right now—to get on the right track. Here are some ideas:

What's it going to take? First, you need to estimate how much money you will need in retirement. Once you have an idea of the ballpark amount, you can work toward fulfilling that goal. You may need 60–80% of your current annual income in retirement. Your financial professional can help you assess the best figures for your situation.

Work it, baby! If your employer offers a retirement plan, contribute as much as the law will allow. In 2007, you can contribute up to $15,500 to an employer-sponsored 401(k) plan. Those over age 50 can contribute an additional $5,000. Many employers also match contributions, sometimes, by as much as 50–100%. Make sure you contribute enough to claim all of this "free" money, which can add up significantly over time.

Create a spending plan. In other words, make a budget. Many people think a budget will be restrictive, but look at it this way: You can spend now, or you can actually have the money to be able to afford your dream adventures. It is very important that you pay down debt now and, furthermore, do not accrue new debt. Examine your spending habits and replace some of your discretionary spending with saving. Even as little as $20 extra per week is a step in the right direction.

Take some initiative. On top of contributing to your employer's plan, you can save even more by opening your own Roth IRA. Contributions are made after taxes, but earnings and distributions are tax-free, provided you have owned the account for at least five years and have reached age 59½. Those age 50 and over can contribute $5,000 a year in 2007. Eligibility for these plans begins to phase out with adjusted gross incomes of $99,000–$114,000 for single filers and $156,000–$166,000 for joint filers.

Hang your shingle. Many boomers hope to start their own businesses in retirement. But why wait? If you begin your entrepreneurial efforts now, your business has the potential to be in full swing by the time you finally do retire, and any profits between now and then can be added to your savings.

Move it or lose it. It's very likely that your home may have significantly increased in value since you first bought it. You may have even already paid off the mortgage. With children at or near adulthood, do you really need that extra space? Selling now and moving to a smaller, more affordable location will allow you to transfer the equity in your home into a savings vehicle.

Why quit? If you want to pad out your retirement savings, consider staying on the job longer. Many people actually leave retirement to reenter the workforce because they feel more fulfilled in a working lifestyle. Others seek part-time work, consulting, or entrepreneurial efforts. If any of these situations sound right for you, you will earn more money each year to save, and you may be able to put off drawing down your savings.

With all of the above options, time and compounding will be to your benefit. Each year that your savings remain untouched will give them more time for growth potential. The baby-boom generation intends to redefine retirement as we know it. With a few steps in the right direction, starting today, you will have the resources to usher change into a whole new era.

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How much do Americans think they need to save for retirement? The *RCS* reported the following: 25% of workers estimate they'll need less than $250,000; 18%, more than $250,000 but less than $500,000; 20%, more than $500,000 but less than $1 million; 11%, more than $1 million but less than $2 million; and 8%, $2 million or more. Younger workers tend to have higher estimates than older workers, and women are more likely to have lower estimates than men.

At least half of Americans plan to rely on their own savings and investments as their primary source of retirement income. According to the *RCS*, 50% of workers expect their own personal savings will be their largest funding resource; 40%, Social Security; and 21%, a traditional pension plan. An employer-sponsored plan, such as a 401(k), will provide most of the retirement income for 28% of respondents.

According to the *RCS*, many Americans are confused about their Social Security benefits. For older generations, the age for receiving full Social Security benefits is 65. However, due to longer life expectancies, full retirement age will increase in gradual steps until it reaches age 67, which affects people born in 1938 and later. Only 18% of those surveyed knew when they would be eligible for full benefits from Social Security.

An additional source of income for a majority of retirees will be work for pay. While 37% of current retirees have worked, at some point, during their retirement, 66% of today's workers expect to work in retirement. The 2007 survey did not inquire about retirees' reasons for working, but the *2006 RCS* reported the following: 96% of working retirees wanted to stay active; 79% enjoyed working; and 63% had at least one financial reason.

The *RCS* also looked at Americans' expectations of health care costs in retirement. Provided Medicare benefits remain at current levels, EBRI estimates that couples who live to the average life expectancy will need approximately $300,000 to cover health costs in retirement; couples living to age 95 may need as much as $550,000. Workers tend to underestimate the amount they and their spouse will need: 32% estimate less than $100,000 will be enough, and 52% estimate less than $250,000 will be enough.

Matthew Greenwald, president of Matthew Greenwald & Associates, cautioned that rising health care costs will be a significant financial burden for future retirees. He said, "It seems clear that workers do not understand how much Medicare, Medigap policies, and prescription drugs will cost them in retirement. Most are not accumulating enough money to even cover the insurance and health care costs they are likely to face in retirement."

Even so, Americans remain relatively confident about their financial futures. According to the *RCS*, 27% of workers are very confident they will have the financial resources to enjoy a comfortable retirement, 43% are somewhat confident, 30% are less confident, 19% are not too confident, and 10% are not at all confident.

[1]Helman, Ruth, Jack VanDerhei, and Craig Copeland, "The Retirement System in Transition: The 2007 Retirement Confidence Survey," *EBRI Issue Brief No. 304*, April 2007.

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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