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The Need for Retirement Planning

For much of the 20th century, retirement in America was traditionally defined in terms of its relationship to participation in the active work force. An individual would work full-time until a certain age, and then leave employment to spend a few years quietly rocking on the front porch. Declining health often made retirement short and unpleasant. Retirement planning, as such, typically focused on saving enough to guarantee minimal survival for a relatively brief period of time.

More recently, however, many individuals are beginning to recognize that for a number of reasons, this traditional view of retirement is no longer accurate. Some individuals, for example, are voluntarily choosing to retire early, in their 40s or 50s. Others, because they enjoy working, choose to remain employed well past the traditional retirement age of 65. And, many retirees do more than just rock on the front porch. Retirement is now often defined by activities such as travel, returning to school, volunteer work, or the pursuit of favorite hobbies or sports.

This changed face of retirement, however, with all of its possibilities, does not happen automatically. Many of the issues associated with retirement, such as ill health, and the need to provide income, still exist. With proper planning, however, these needs can be met.

Longer Lives

The single most important factor in this changed retirement picture is the fact that we now live much longer than before. A child born in 1900, for example, had an average life expectancy of 47.3 years. For a child born in 2014, however, average life expectancy had increased to 78.9 years. The following graph[1] illustrates this change.

[1] Source: National Vital Statistics Reports, Volume 66, Number 4 – United States Life Tables, 2014, Table 19. August 14, 2017.

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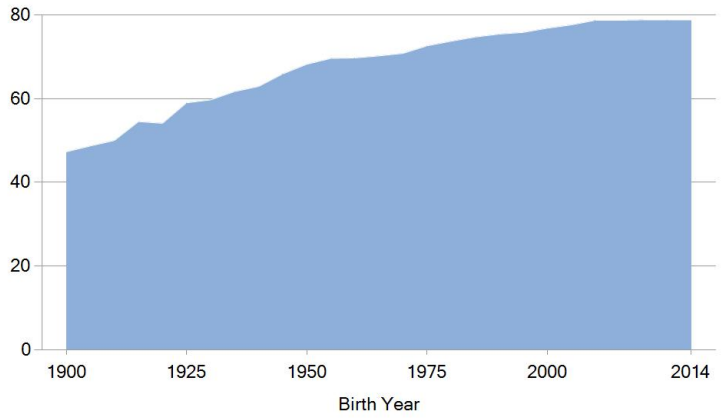
Average U.S. Life Expectancy (1900 – 2014)



Common Retirement Planning Issues

Planning for a much longer life span involves addressing problems not faced by earlier generations. Some of the key issues include the following:

- **Paying for retirement:** Providing a steady income is often the key problem involved in retirement planning. Longer life spans raise the issue of the impact of inflation on fixed dollar payments, as well as the possibility of outliving accumulated personal savings. Social Security retirement benefits and income from employer-sponsored retirement plans typically provide only a portion of the total income required. If income is insufficient, a retiree may be forced to either continue working, or face a reduced standard of living.

- **Health care:** The health benefits provided through the federal government's Medicare program are generally considered to be only a foundation. Often a supplemental Medigap policy is needed, as is a long-term care policy, to provide needed benefits not available through Medicare. Health care planning should also consider a health care proxy, allowing someone else to make medical decisions when an individual is temporarily incapacitated, as well as a living will that expresses an individual's wishes when no hope of recovery is possible.

- **Estate planning:** Retirement planning inevitably must consider what happens to an individual's assets after retirement is over. Estate planning should ensure not only

that assets are transferred to the individuals or organizations chosen by the owner, but also that the transfer is done with the least amount of tax.

- **Housing:** This question involves not only the size and type of home (condo, house, shared housing, assisted living), but also its location. Such factors as climate and proximity to close family members and medical care are often important. Completely paying off a home loan can reduce monthly income needs. A reverse mortgage may provide additional monthly income.
- **Lifestyle:** Some individuals, accustomed to a busy work life, find it difficult to enjoy the freedom offered by retirement. Planning ahead can make this transition easier.

Seek Professional Guidance

Developing a successful retirement plan involves carefully considering a wide range of issues and potential problems. Finding solutions to these questions often requires both personal education and the guidance of knowledgeable individuals, from many professional disciplines. The key is to begin planning as early as possible.

Do You Desire "Retirement Peace of Mind?"

In December, 2012, a landmark study was launched to determine a national retirement peace of mind.[1] It included more than 6,000 respondents age 45 and older. It found that average Americans have a lot of challenges and a lot of expectations for their retirement years.

Retirement Expectations

Traditionally, many Americans have viewed retirement as a time of leisure. Today, more and more of us expect to work during our retirement years. Seven out of ten of those surveyed in the study said that their ideal plan for balancing work and leisure in retirement would be to include some work.

The reasons are not purely economic. Many Americans see retirement as a time for renewal and accomplishment. When asked if they would seek the same kind of work in retirement or pursue a different career, half of those surveyed said they would seek a different line of work.

A desire for more money and economic security was the most important reason for working in retirement according to a majority of the survey participants, but 48 percent said a desire for stimulation and satisfaction was their top reason for continuing to work during retirement.

When asked about their most important financial goal, 88 percent said they would like to save enough money to have financial peace of mind, versus 12% who said they would like to accumulate as much wealth as possible.

Retirement Challenges

The study also sought information on the greatest concerns facing those nearing retirement. Not surprisingly, in today's complex economic and social climate, they found many complications that could make the task of retirement planning even more challenging.

- **Health problems:** Americans are expected to live longer than ever before. When asked what concerned them about living a long life, 72% of those surveyed said they feared

[1] "Americans' Perspectives on New Retirement Realities and the Longevity Bonus, a 2013 Merrill Lynch Retirement Study, conducted in partnership with Age Wave."

serious health problems, making it the top retirement worry. This compares with 47% who said they worried they would run out of the money they need to live a comfortable retirement.

There is good reason for concern. The study found that the top reason for early retirement given by those already retired was due to personal health problems. Fully 57% of study participants who had already retired reported they retired earlier than they had planned.

- **Caring for family members:** More and more Americans today are left caring for others in their families: adult children, grandchildren, parents or in-laws, siblings. These Americans are often referred to as the "Sandwich Generation", finding their own needs for saving and retirement security squeezed by the needs of others they love.

Among study participants aged 45 or older with children, over half said they expected to have to continue to provide support to adult children. More than a third expected to have to support grandchildren. Fewer said they expected to have to support parents (16%) or their siblings (10%).

The types of support they expected to provide included financial support (cash or loans), housing (sharing a home or helping pay for housing), education and healthcare. The study also found a relationship between income and expectations for providing support: participants with higher incomes were two times more likely to say they expected to provide support to their adult children, grandchildren and parents than those with lower incomes.

Do You Have "Retirement Peace of Mind?"

The study tried to determine how close participants were to achieving retirement peace of mind by asking them to respond to these survey questions:

Question
• I feel content and comfortable about how I will spend my retirement years.
• I have many worries about what might happen during my retirement.
• Thinking about my retirement gives me feelings of security and stability.
• I feel anxious and uneasy about how I will support myself and my family during retirement.
• I feel well prepared for whatever may happen during my retirement.

The study found that participants had an average score of 5.3, based on a scale of 1 to 10, or slightly above average. Scores varied, though, by gender, the amount of savings, and if the participant worked with a financial advisor.

- Men were more likely than women to have retirement peace of mind. The average score for male participants was 5.6 while female participants averaged 5.0.
- Participants with $500,000 or more in investable savings averaged a score of 7.5 while those with under $250,000 in investable savings averaged 4.8.
- Participants who worked with a financial advisor at the time of the study had an average score of 6.3, while those who did not work with a financial advisor had a score of 4.7.

How Can You Improve Your Retirement Peace of Mind?

The results of the national study suggest several steps you can take today to improve your peace of mind during retirement:

- **What is your most important financial goal?** Are you like the 88 percent who said they would like to save enough money to have financial peace of mind? Or, are you more like the 12% who said they would like to accumulate as much wealth as possible? The answer may help determine your retirement savings and investment strategy.
- **Do you intend to work during retirement?** Will you stay in the same line of work, or start a new career… maybe even a business of your own? If you do intend to work, it could affect the Social Security benefits for which you qualify. You will want to research the impact carefully.
- **What will you do for personal satisfaction?** While a desire for more income and security was the top reason for working in retirement, almost half of the study participants said they intended to do so for personal stimulation and satisfaction. What will you do for stimulation and satisfaction? Do you wish to travel? Start a new career? Volunteer in your community? Whatever your choices, look carefully to see how they may affect your retirement savings goals. Do you need to save money to start a business? To complete a college education? To travel?
- **Are you prepared for any personal healthcare issues that could arise?** Problems with personal health lead more people to retire earlier than planned more than any other

cause. Do you understand your medical care and long-term care options? Does your employer offer extended healthcare benefits to retirees or will you be required to provide your own? Is disability insurance appropriate for your situation?

- **Do you have any other family obligations to consider?** More and more retirees today find they must continue to provide financial support for their adult children, grandchildren, parents or siblings. Are you supporting family members today? Do you intend to support family members during retirement? How is supporting family today affecting your ability to save for retirement? Are there other strategies you should consider? Is life insurance something you should consider to help care for survivors or heirs?
- **Would you benefit from professional financial advice?** Participants in the nation-wide study reported overall higher levels of retirement peace of mind when they worked with a financial advisor. Would discussing your retirement goals and challenges with a professional help you?

Whatever your expectations for retirement, like all important things in life, it pays to have a plan to achieve them and to regularly measure your progress towards your goals.

Sources of Retirement Income

Most retirees derive their retirement income from three primary sources: Social Security retirement benefits, qualified retirement plans, and individual savings and investments.

Social Security Retirement Benefits

Social Security retirement benefits are intended to provide only a portion of an individual's retirement income. Traditionally, retirement benefits began at age 65. For those born after 1937, however, the age at which full benefits begin will increase gradually, until it reaches age 67 for those born in 1960 and later. A reduced benefit is available, beginning at age 62. The monthly benefit amount is based on an individual's past earnings record. A worker can earn a larger retirement benefit by continuing to work past full retirement age, up to age 70. Up to 85 percent of a retiree's Social Security retirement benefits may be taxable as ordinary income. Retirement benefits are subject to adjustment for inflation on an annual basis.

Qualified Retirement Plans

A retirement plan is considered to be "qualified" if it meets certain requirements set by federal income tax law. In general, employer or employee contributions to a qualified plan are currently deductible and the earnings are tax deferred until paid out of the plan. Mandatory distribution rules typically apply and taxable withdrawals before age 59½ may be subject to an additional 10% penalty tax.[1]

- **Employer-sponsored qualified plans:** Employer-sponsored plans can generally be classified as either defined benefit or defined contribution. Defined benefit plans specify the benefit amount a participant will receive at retirement; an actuary estimates how much must be contributed each year to fund the anticipated benefit. The investment risk rests on the employer. Benefits are generally taxable. Defined contribution plans, such as 401(k), 403(b) or SEP plans, typically put a percentage of current salaries into the plan each year. The retirement benefit will

[1] The rules and regulations surrounding qualified plans are complex. This discussion is intended to be only a brief, general description. State or local law may vary.

depend on the amount contributed, the investment return, and the number of years until a participant retires. The investment risk rests on the participant. Benefits are generally taxable.

- **Individual qualified plans:** Include the traditional Individual Retirement Account (IRA) and the Roth IRA. Contributions to a traditional IRA may be deductible and earnings grow tax deferred. Distributions from a traditional IRA are taxable to the extent of deductible contributions and growth. Contributions to a Roth IRA are never deductible and earnings grow tax deferred. If certain requirements are met, retirement distributions from a Roth IRA are tax free.[1]

- **Nonqualified retirement plans:** An employer may set up a plan, often in the form of a deferred compensation plan, which does not meet federal requirements to be considered "qualified." Benefits are generally taxable when received. Such plans are often used as a supplement to qualified retirement plans.

Individual Savings

Individual savings and investments are the third primary source of retirement income. An individual can choose to accumulate funds using a wide range of investment vehicles. The appropriate type of investment will depend on a number of factors such as an individual's investment skill and experience, risk tolerance, tax bracket, and the number of years until retirement. Below are listed some of the more commonly used choices.

- **Savings accounts:** Including regular savings accounts, money market funds, and certificates of deposit (CDs) at banks, savings and loans and credit unions.

- **Common stock:** May also include other forms of equity ownership such as preferred stock or convertible bonds. Stock can be owned directly, in a personal portfolio, or indirectly through a mutual fund or an exchange-traded fund (ETF).

- **Bonds:** Includes corporate, government or municipal bonds. Bonds can be directly owned in a personal portfolio or indirectly held in either a mutual fund, unit investment trust, or an exchange-traded fund.

[1] The discussion here concerns federal income tax law; state or local tax law may vary.

- **Real estate:** Individually owned investment real estate or indirect investment through a real estate investment trust or limited partnership.
- **Precious metals:** Such as gold or silver, in the form of coins, bullion, or in the common stock of mining companies.
- **Commercial deferred annuities:** Commercial, deferred annuities are purchased from a life insurance company and can provide tax-deferred growth through a variety of investment choices.

Other Income Sources

Other retirement income sources include the following:

- **Immediate annuity:** An "immediate" annuity is purchased from a life insurance company, typically with a single, lump-sum payment. Within one year after purchase, the annuity begins to make regular, periodic payments to the annuity owner.
- **Continued employment:** On either a full or part-time basis. Wage and salary income is usually taxable and before-full-retirement-age[1] earnings above a certain level may affect the amount of Social Security retirement benefits received.
- **Home equity:** If a home is completely paid for, a reverse mortgage may provide additional income, without giving up home ownership.

[1] "Full retirement age" is the age at which an individual is entitled to "full" Social Security retirement benefits – 100% of an individual's Primary Insurance Amount. Under current law, this age will vary from 65 to 67, depending on an individual's year of birth.

Important Notice

This report is intended to serve as a basis for further discussion with your other professional advisors. Although great effort has been taken to provide accurate numbers and explanations, the information in this report should not be relied upon for preparing tax returns or making investment decisions.

Assumed rates of return are not in any way to be taken as guaranteed projections of actual returns from any recommended investment opportunity. The actual application of some of these concepts may be the practice of law and is the proper responsibility of your attorney.

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Reverse mortgages involve risk including high interest, loss of home equity or the home.