retirement income planning

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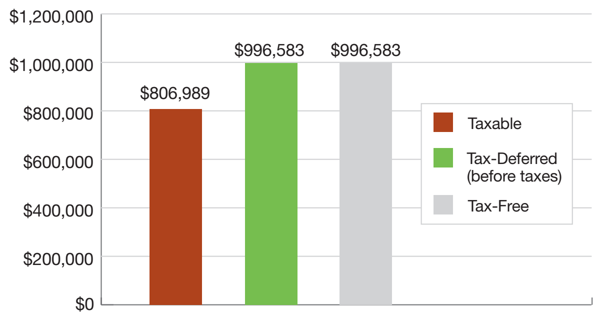
it's never too early to start planning

Retirement is just around the corner and there's no better time to start planning for it. By acting now, you may avoid retirement traps, such as taxes, penalties and market risks. These pitfalls can impact your retirement income in ways you never expected. As you start the planning process, it's important to consider all the sources of funds that may be available to you—taxable, tax-deferred, tax-free or tax-exempt.

Taxable Income Taxable sources of income are money that receives no tax breaks either now or in the future. The Internal Revenue Service defines income as any money, property or services you receive. The government says that all types of income are taxable unless specifically excluded by law.

Tax-Deferred Income Tax deferred sources of income include 401(k) plans, traditional IRAs and annuities. Tax-deferred means income taxes are deferred until money is withdrawn from the account.

Tax-Free or Tax-Exempt Income When you make a withdrawal from tax-free or tax-exempt sources of income, you don't lose any value to income taxes. The most common examples are income from Municipal Bonds (tax-exempt) and qualified distributions from Roth IRAs (tax-free).

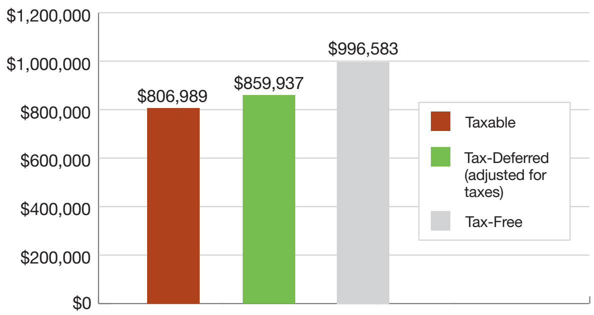


Tax-deferred and tax-free do have advantages while you are saving for retirement. This chart depicts an annual deposit of $15,000 into a taxable account, a tax-deferred account and a tax-free account. Assuming a 25% tax bracket and compounding interest at 5% annually, the tax-deferred and tax free accounts are worth almost $200,000 more after 30 years[1].

[1] Lower maximum tax rates on capital gains and dividends could make the investment returns for the taxable investment more favorable. Investors should consider their personal investment choices and income tax brackets, both current and anticipated, when making an investment decision. It's likely an investor's tax bracket could change over time. This is a hypothetical example for illustration purposes only. It is not intended to reflect a particular investment. Actual results may vary.

Don't forget that qualified accounts like traditional IRAs and 401(k)s are fully taxable as deferred income—the full amount that you withdraw will be taxed. A retiree's net tax rate could be the same or higher than what their next tax rate was during the early years of their career. Even if their gross income is less in retirement, they generally have the most tax deductions, such as mortgage interest and dependent children, during their earlier years.

Look at these same accounts now after they've been adjusted for taxes. The tax-deferred account is only worth about $50,000 more than the taxable account, while the tax-free account is not affected by taxes.



Retirement Savings

Confidence in Social Security is waning. Fifty-seven percent of non-retirees predict Social Security won't be able to pay them benefits when they stop working[1] and they'll need to fund their retirement income from their own savings.

To make matters worse, saving through qualified plans such as a 401(k) or IRA alone will likely not be sufficient to reach your retirement objective. Many retirement savings tools such as these enjoy tax-deferred growth but contributions are limited or, in some cases, may preclude a client's eligibility.

Disability

One in eight workers will be disabled for five years or more during their working years.[2] What most people don't consider is the financial impact disability can have on their future retirement. Since there is no earned income while you are disabled, employer contributions to most qualified plans cease and an employee's ability to contribute is suspended.

[1] http://www.aarp.org/content/dam/aarp/research/surveys_statistics/econ/2015/social-security-80th-anniversary-report.pdf

[2] Commissioner's Disability Insurance Tables A and C, assuming equal weights by gender and occupation class

down markets

As you save for retirement, you know you're going to have to ride out a few bear markets. That risk is the trade-off for getting potentially higher returns. But once you retire, those same bear markets could possibly jeopardize the amount of money you have to live on.

Take a look at the following example. It shows a retirement account worth $1.5 Million at age 65. Withdrawals of $150,000 are taken at the beginning of each year. The account earnings are based on the actual performance of the Morningstar Moderate Allocation Benchmark for the period of January 1, 2001 - December 31, 2011. While the average gross return of this benchmark was positive during this time, it also had several years of negative returns. Look at the impact the varying returns can have on a retirement account once distributions have started. Notice how quickly the account shrinks over these years.

Age	Beginning of Year Balance	Systematic Withdrawal on 1/1	Morningstar Moderate Allocation Benchmark	End of Year Balance
65	$1,500,000	$150,000	-2.46%	$1,316,790
66	$1,316,790	$150,000	-6.69%	$1,088,732
67	$1,088,732	$150,000	22.48%	$1,149,759
68	$1,149,759	$150,000	11.48%	$1,114,531
69	$1,114,531	$150,000	7.04%	$1,032,434
70	$1,032,434	$150,000	12.95%	$996,709
71	$996,709	$150,000	8.63%	$919,780
72	$919,780	$150,000	-22.19%	$598,966
73	$598,966	$150,000	21.77%	$546,706
74	$546,706	$150,000	12.33%	$445,620
75	$445,620	$150,000	0.59%	$297,364

This illustration is hypothetical and for illustration purposes only. Past performance is not an indicator of future results. You cannot invest directly in a benchmark. Actual results may vary.

An Alternate Approach

If distributions can be avoided in those years following a down market, a different result may be achieved.

The account is still worth over $1 Million at age 75, even after withdrawing nearly $1 Million and with significant declines in the benchmark at ages 65, 66 and 72.

Age	Beginning of Year Balance	Systematic Withdrawal on 1/1	Morningstar Moderate Allocation Benchmark	End of Year Balance
65	$1,500,000	$150,000	-2.46%	$1,316,790
66	$1,316,790	$0	-6.69%	$1,228,697
67	$1,228,697	$0	22.48%	$1,504,908
68	$1,504,908	$150,000	11.48%	$1,510,451
69	$1,510,451	$150,000	7.04%	$1,456,227
70	$1,456,227	$150,000	12.95%	$1,457,383
71	$1,475,383	$150,000	8.63%	$1,439,764
72	$1,439,764	$150,000	-22.19%	$1,003,565
73	$1,003,565	$40,630*	21.77%	$1,172,566
74	$1,172,566	$150,000	12.33%	$1,148,649
75	$1,148,649	$150,000	0.59%	$1,004,541

This illustration is hypothetical and for illustration purposes only. Past performance is not an indicator of future results. You cannot invest directly in a benchmark. Actual results may vary.

*This value represents the Required Minimum Distribution from the IRA in that year.

required minimum distributions

Tax-deferred retirement plans such as traditional IRAs and 401(k)s have what is called a Required Minimum Distribution (RMD), money that you are required to withdraw whether you actually need it or not. If the RMD isn't taken, there may be an excess accumulation penalty of 50% on the amount not distributed.

In addition, qualified plan balances may be subject to double taxation – both income and transfer taxes upon your death, which often reach 30% or more. If you're thinking you'll leave whatever's left of your qualified plans to your heirs, you may not be leaving your loved ones as much as you thought you were.

retirement income

If you've made the decision to retire early or experience a financial emergency, you will find that accessing account values from a qualified plan such as a 401(k) can create adverse tax consequences if taken before age 59½. Not only will you need to pay normal income taxes on the full amount withdrawn, you will also incur a 10% penalty for early withdrawal. You could lose 50% or more of your savings to taxes.

You can get Social Security retirement benefits as early as age 62. However, you will receive a reduced benefit if you retire before your full retirement age. For example, if you start your retirement benefits at age 62, your benefit would be about 25% lower than what it would be if you waited until you reach full retirement age. Some people stop working before age 62. But if they do, the years with no earnings will probably mean a lower Social Security benefit when they retire.

Full Retirement and Age 62 Benefit By Year Of Birth[2]

		At Age 62	
Year of Birth	Full (normal) Retirement Age	A $1000 retirement benefit would be reduced to	A $500 spouse's benefit would be reduced to
1943-1954	66	$750	$350
1955	66 and 2 months	$741	$345
1956	66 and 4 months	$733	$341
1957	66 and 6 months	$725	$337
1958	66 and 8 months	$716	$333
1959	66 and 10 months	$708	$329
1960 and later	67	$700	$325

[2] www.socialsecurity.gov/retire2/agereduction.htm

Achieve the retirement you dream of.

There are ways to help avoid these retirement traps.

Using cash value life insurance may help. Not only does life insurance offer a valuable death benefit, cash value policies can also provide retirement cash flow through a combination of withdrawals and policy loans, helping to supplement retirement income.

The longer you wait the greater chance you have of falling into a retirement trap. Many of these traps, such as taxes, penalties and market risks, may impact your retirement income in ways you never expected.

Consider Life Insurance

In addition to providing a valuable death benefit, the cash value in a permanent life insurance policy will also accumulate on a tax deferred basis. At retirement, the cash value in the policy may be withdrawn or borrowed.[1] Keep in mind that if the policy lapses, adverse tax consequences may occur.

Life insurance can also help avoid retirement traps:

Life insurance has no annual contribution limits or income eligibility limits You are generally not restricted on the amount you can allocate towards a life insurance policy. You can contribute more than the required minimum premium, allowing the potential to build even more cash value.[2]

Life insurance can help in the event of a serious illness Life insurance with an accelerated death benefit rider can help ease the financial strain of a serious medical condition by providing an advance on your policy's death benefit while you are living.

Life insurance can help reduce the impact of a bear market Life insurance may be used as an alternate source of funds in a down market year. A non-variable policy may not be affected by short-term volatility and may help you get through changing economic conditions.

Life insurance has no penalties on distributions Part of a savings strategy should keep some assets available without incurring penalties and taxes if possible. Life insurance can fill this role. You can begin taking loans and withdrawals from the available cash value at any age without tax penalty, although contract surrender charges may apply in the early years of the policy.[1, 3]

Life insurance can help increase your legacy If you don't need your RMD withdrawals, you can use them to purchase a life insurance policy. Properly designed and funded, this will provide an income tax-free benefit to your loved ones.

Life insurance can help in the event of a serious illness Life insurance with an accelerated death benefit rider can help ease the financial strain of a serious medical condition by providing an advance on your policy's death benefit while you are living.

Prior to purchasing a life insurance policy, you should review all costs and expenses. The primary purpose of life insurance is to provide financial security for beneficiaries.

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[1] Tax law permits a policy owner to withdraw life insurance policy cash values up to the policy owner's basis or investment in the contract without income tax consequences. Withdrawals and loans will reduce the available death benefit. Withdrawals beyond basis may be taxable income. Excess and unpaid loans will reduce policy value and may cause the policy to lapse. If a policy lapses, unpaid loans are treated as distributions for tax purposes. For more information about the tax results of life insurance, consult your attorney or tax advisor.

[2] Contributions in excess of certain guidelines will disqualify the policy as life insurance for federal income tax purposes or may classify the policy as a modified endowment contract, thereby eliminating certain tax benefits.

[3] Unless policy is a modified endowment contract.

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