RETIREMENT AND ESTATE PLANNING

INFORMATION FOR EVERY SENIOR

"Where your principal is never as risk."

Top Issues Facing Seniors Today

- Retirement Income that cannot be outlived
- Personal Income Taxes
- Taxes on Social Security Income
- The Financial Impact of Losing Your Spouse
- Stock Market Exposure
- Distribution of Your Estate & Probate
- Long Term Care Options
- Federal Estate Taxes
- Personal Family Issues

Planning For Your Financial Future

When planning for your financial future, there are a number of issues that need to be kept in mind.

1. Your Current Situation

The first step is to take a snapshot of what you have and where it is. This includes:

- A summary of your income
- What you are invested in
- How much you have invested
- What your goal are for those investments
- What type of fixed assets you have
- What insurance you have in place
- And most important, what your primary financial concerns are

2. Your Future Goals

After you know your current financial situation, you can better decide where you want to be.

- What are your concerns?
- What are your goals?
- What would you like to do with your money?
- And more importantly, what would you like your money to do for you?

3. The Roadmap To Your Future

Finally, after analyzing your current situation and where you would like to be, you'll want to navigate the roadmap to your future.

Identify your needs and concerns...Align them with potential solutions...Chart out a course that will get you to your final destination.

The Financial Life Cycle

When we start talking about financial security, it helps to look at the financial life cycle that virtually everyone experiences over their lifetime. The financial life cycle involves three phases:

- Accumulation Phase
- Preservation Phase
- Distribution Phase

Wealth Accumulation

The **Accumulation Phase** is the time in your life when you raised your family, worked hard to get what you have and planned for retirement. During this phase, you were willing to take more risk with your money in order to get a larger return on your investment.

Wealth Preservation

When entering retirement, you move into the **Preservation Phase** of your life cycle. Here we are focused on preserving what we have saved and the assets we have accumulated. During the preservation phase, we are specifically concerned about the possibility of outliving our retirement income because of:

- Loss of Income
- Loss of Assets

Income

Income is clearly the most critical piece of our financial well-being. Maximizing and protecting that income is a common concern of many retirees. Income can be earned from many areas, such as:

- Social Security Benefits
- Pensions
- Rental Income
- Interest Earnings
- Wages
- IRA Distributions
- Annuity Payments
- Dividend Payments

Income Taxes

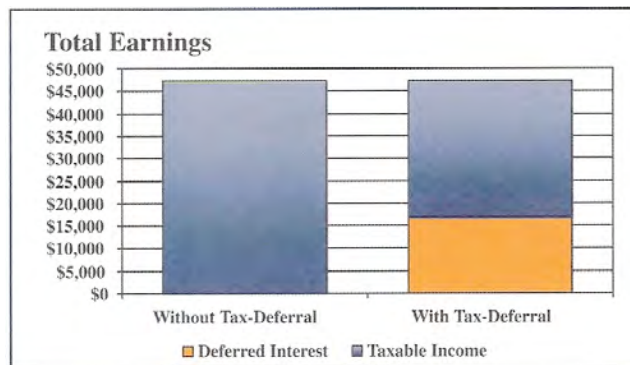
"You're taxed when you make it and you're taxed on your earnings from your income." Quite simply, income taxes reduce your net income and "net" income is what you can use.

The question really isn't, "Are you paying taxes?" but rather, "are you paying unnecessary taxes?" If you can defer taxes on earnings, for example, your total earnings will remain the same but your net income- the money you keep- will likely be higher.

Here's a hypothetical example. Let's assume your total earnings were as follows:

Pension	$18,000
Social Security	$12,000
Taxable Interest	$15,000
Total Earnings	$45,000

Now, if you could defer taxes on the taxable interest, your total earnings would remain the same, but your income taxes would be reduced. The end result would be a higher Net Income.



We assume here for purposes of this hypothetical example that tax-deferred interest equals the replaced taxable interest. As you can see, your total earnings remain unchanged, but your taxable income is reduced.

Social Security Taxes

Originally, it was not intended for Social Security benefits to be taxed. In 1984, however, regulations were passed that allowed taxation of 50% of the Social Security benefits for anyone earning over a certain level of income. In 1993, that was increased to 85% for certain other earnings groups.

Continuing the previous example: (assume married)

$12,000 annual Social Security
Assume income tax rate of 15%
$10,200 (85% of $12,000) would be taxed at 15%
Annual tax on Social Security income= $1,530

SOCIAL SECURITY THRESHOLD

Income		Taxable S.S.
Individual		
$25,000	$34,000	50%
$34,000	+	85%
Joint		
$32,000	$44,000	50%
$44,000	+	85%

TAX RATES FOR 2005

Single		Married
$0 - $7,300	10%	$0 - $14,600
$7,300 - $29,700	15%	$14,600 - $59,400
$29,300 - $71,950	25%	$59,400 - $119,950
$71,950 - $150,150	28%	$119,950 - $182,800
$150,150 - $326,450	33%	$182,800 - $326,450
$326,450 & above	35%	$326,450 & above

By deferring interest income, taxes are deferred on that income. In addition, the tax on Social Security income could also be reduced.

Before Tax-Deferral:

Pension	$18,000
Social Security	$12,000
Taxable Interest	$15,000
Total Taxable Earnings	$45,000

Taxable Social Security @ 85% = $ 10,200
Taxes Paid on Social Security = $ 1,530

After Tax Deferral:

Pension	$18,000	
Social Security	$12,000	
Taxable Interest	($15,000)	Deferred
Total Taxable Earnings	$30,000	

Taxable Social Security @ 85% = $ 0
Taxes Paid on Social Security = $ 0

By deferring taxes on your taxable interest, you could avoid paying taxes on your Social Security income. Again, actual earnings remain the same @ $45,000 for the year.

Loss of a Spouse

Losing a spouse is, of course, one of the biggest concerns facing seniors. Not only does it involve great personal loss, but it can also significantly reduce the surviving spouse's standard of living. No longer do two social security checks come in. Perhaps, a pension check also stops, or is reduced. Maybe that spouse was working part-time and that income ceases. Planning for this loss can help reduce its financial impact when that time comes.

Let's use the example of Jack and Diane: (both are same age)

Here is their original financial situation:

$13,200/yr. Jack's Social Security
$ 8400/yr. Diane's Social Security
$12,000/yr. Jack's Pension
$3,200/yr Jack's IRA distribution
$1,300/yr Diane's IRA distribution
$6,000/yr dividends from Stock
$2,500/yr interest from CDs

$46,600 annual gross income before tax

What is Diane's new situation in the event of Jack's death?

$13,200/yr. Jack's Social Security
$ 0/yr. Diane's Social Security (discontinued, Diane assumes Jack's amount)
$ 6000/yr. Jack's Pension (reduced by half)
$3,200/yr Jack's IRA distribution (Jack's IRA is transferred to Diane)
$1,300/yr Diane's IRA distribution
$6,000/yr dividends from Stock
$2,500/yr interest from CDs

$32,200 annual gross income before tax

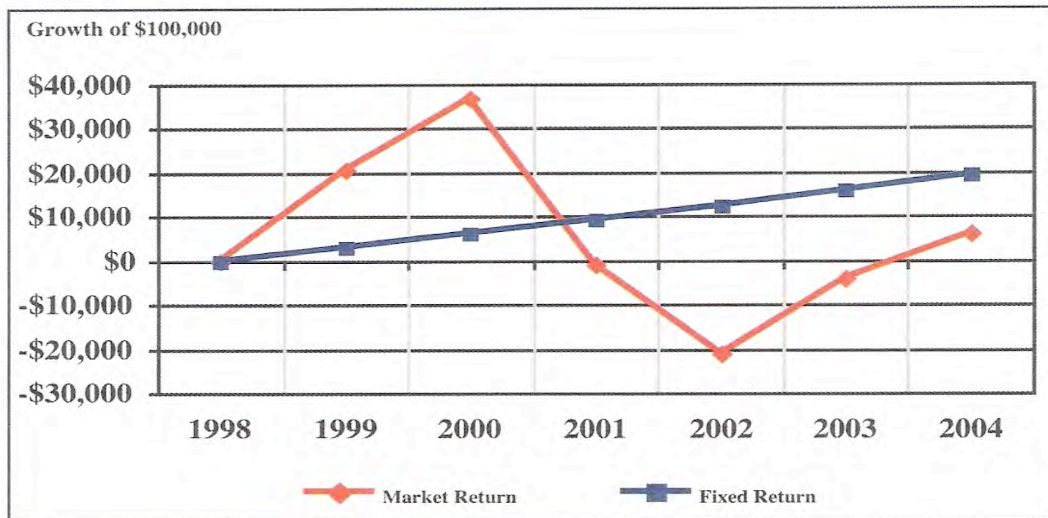
As a single tax payer, Diane now could possibly pay at a higher income tax rate.

Gross Income Loss: $14,400

Market Risk

Market risk is, simply the risk of loss that an investor may experience as a result of changes in the market value of their investments. The term is most often used in reference to stocks, corporate bonds, and mutual funds, but can apply to other types of investments as well. As your financial situation changes, so should the degree to which you invest in the types of investments that are subject to market risk. Generally, the older you get, the less exposure you should have to market risk in your investments.

Returns for two different types of investments are shown below.



* **"Market Return Data" based upon S&P 500 returns for fiscal years 1998-2004.**
  "Fixed Return" data is calculated at a 3% rate of return.

The Certified Financial Planners Board of Standards has built a formula to help investors determine how much of their estate should be subject to market risk. This is called the rule of 100, which states that you subtract your age from the number 100 and this is the approximate percentage of your investments that should be "at risk."

For example:

Nancy is 72 years old (100 – 72 = 28)

Based on the Rule of 100, no more than 28% of Nancy's investments should be at risk.

So, what are 'safe' assets and what are subject to market risk?

Here are some examples of Safe Assets and At-risk Assets:

"Safe" Assets	At-risk Assets
Checking Accounts	Stocks
Savings Accounts	Mutual Funds
Certificates of Deposit	Variable Annuities
Fixed Annuities	Corporate Bonds
Indexed Annuities	Municipal Bonds
Government Bonds	Precious Metals
Life Insurance	Commodities

How can risk affect your investments and your retirement?

Many seniors use income from their investments to supplement their income or increase their savings. Due to market risk, assets that are subject to that risk may not produce income at the expected rate of return. So, if you are using those assets to supplement your income, you can never be certain of the result. Further, you may be subject to a loss of some or all of the initial investment.

Statistics on Health Issues

- Studies show that 44% of Americans over the age of 65 will require some form of custodial care either at home or in a long term care facility at some point in their life*. The average time is 2 _ years and the costs can range between $3,000 and $9500 per month depending on location where care is received. Unfortunately, these costs continue to rise faster than the usual rate of inflation.

- Only 6% of Americans are covered for long term care. The rest (94%) are self-insured, meaning they could be forced to deplete their assets to pay for long term care if care is required for an extended period of time.

- This can have a huge impact on the value of your assets and would affect the next phase of the financial cycle, which is distribution. Medicare does not provide for custodial care.

* A Shopper's Guide to Long-Term Care Insurance, by the National Association of Insurance Commissioners, 2006.

Wealth Distribution

The final phase of your financial life involves the **Distribution Phase**. While proper planning can make this a smooth and painless process for your heirs, little or no planning can result in the payment of unnecessary taxes, a delay in your heirs receiving their inheritance, and occasionally, distribution of the assets to others than you intended.

Three issues that affect distribution of your assets include:

1. Probate 2. Estate Taxes 3. Family Concerns

Probate

Probate is the public process used to transfer your assets to your beneficiaries. If you have a valid will, your assets will be distributed as stated in the will. If you do not have a will (called 'intestate') your assets will be distributed according to the guidelines of the state you live in. The purpose of probate is to ensure that all your debts are paid, your property is distributed according to your will (if one exists), and to ensure that all taxes are paid. The probate process can be time consuming and expensive, and is open to public knowledge.

Generally, the steps* of the Probate Process are:

1. Will is filed through the court
2. Probate petition is filed and all heirs are notified, as well as a notice to the public, most often in a local newspaper
3. The executor or personal representative is named by the court, an often and attorney is hired
4. A claims period is begun for creditors to make claims against the estate
5. Death tax returns are filed by the executor
6. Remaining assets are distributed to the heirs by the executor

*The exact steps in the probate process vary from state to state

There are some costs associated with the probate process. These typically include:

> Attorney Fees **> Court Costs** **> Appraiser Fees**
> Administrator Fees **> Income and Estate Taxes**

With proper planning, however, you may be able to avoid probate.

There are four ways to pass assets to your heirs/beneficiaries outside of the probate process.

1. Gifting 2. Joint Tenancy 3. Beneficiary Designations 4. Trusts

There are positives and negatives to each of these options. Depending on your situation, some options may be better than others. It may take a combination of these options to set up the best situation for your estate. Here at **Senior Planners of America**, we can provide you with the necessary advice on what options may be best for you and your situation.

Federal Estate Taxes

Your estate is subject to federal estate taxation only if it exceeds the available exemption amount. This is the value of assets that each person may pass on to beneficiaries without paying federal estate tax. The Taxpayer Relief Act of 1997 provides for a gradual increase in the exemption.

This chart shows the federal estate tax exemption amount by year:

Estate Tax Exemption Amount			
2001	$675,000	2007	$2,000,000
2002	$1,000,000	2008	$2,000,000
2003	$1,000,000	2009	$3,500,000
2004	$1,500,000	2010	No Estate Tax
2005	$1,500,000	2011	$1,000,000*
2006	$2,000,000		

*Unless Congress extends current legislation.

State Death Taxes

There are state death taxes or inheritance taxes in the following states: Massachusetts, Mississippi, New York, Ohio, Oklahoma, Puerto Rico, Connecticut, Delaware, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maryland, Michigan, Montana, Nebraska, New Hampshire, New Jersey, North Carolina, Pennsylvania, South Dakota, and Tennessee.

Personal Family Issues

One of the most unanticipated, yet most common, problems associated with the death of a family member is conflict over estate distribution. For those with a simple estate and few survivors, there may be little or no conflict. Nowadays, however, 'families' are becoming more and more complex, with more divorce and potential for multiple sets of children and grandchildren, and so the potential for conflict is increasing. Along with clear communication within the family, there are safeguards that can be put in place to minimize the possibility for family conflict.

Transfer techniques that can help families address these types of issue:

- QTIP trusts (Qualified Terminable Interest Property Trust) which allows you to provide for children from a prior marriage
- Life estates- allowing your surviving spouse to live in the family home until death, at which time the home would pass to your children.
- Life insurance- By naming individual beneficiaries, you can direct the proceeds of your life insurance policy to be paid to children from different marriages.

Summary

Every retiree and their family should conduct a thorough review of their current situation, including:

- Current Income
- Tax liabilities; Income Tax, Tax on Social Security, Death/Estate Taxes
- How to Reduce or Eliminate Probate and Expense
- How to Protect Financial Assets
- How to Maximize Tax Deferral Opportunities and Explore Guaranteed Lifetime Income Opportunities

For the last 600 years our assets have been distributed through attorneys.
Their distribution process was accomplished 90% by use of a will and 10% by use of a trust.

At **Senior Planners of America** we believe in leaving a legacy not a lottery ticket.
We often recommend the use of a trust that instructs the trustee to distribute all assets through the use of a commercial annuity.

Here are several reasons an Annuity is the best financial vehicle to use in the distribution of your estate to your heirs…

1. In many states an Annuity is creditor proof and protected against lawsuits; it cannot have a lien placed against it, be seized or garnished.
2. With 55% of all marriages ending in divorce, the income stream from an Annuity is not considered a marital asset.
3. If one of your heirs needs to declare bankruptcy, an Annuity is excluded.
4. When using an Annuity for distribution it creates additional interest income, so your heirs will receive MORE than you initially left for them.
5. For IRAs, 401Ks and other qualified money, an income stream can lower taxes on these accounts.

Senior Planners of America has been in business since 1999. We are a member in good standing with the Better Business Bureau of Northeast Florida.