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Achieving Your Retirement Dreams

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June 9, 2020

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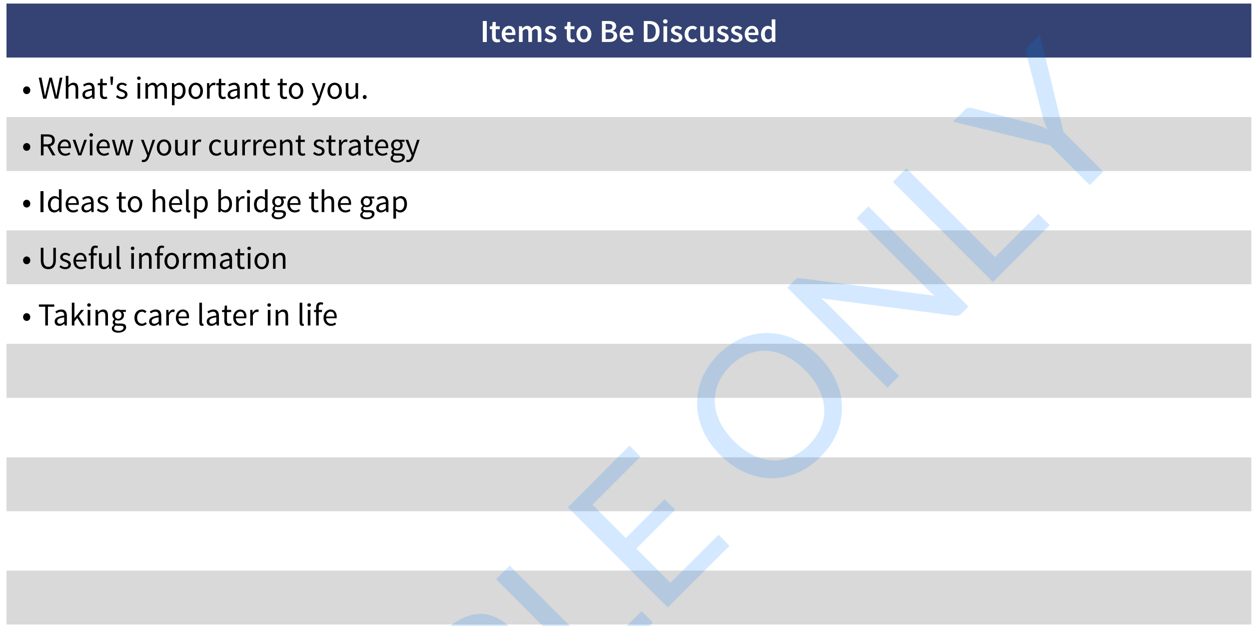
Agenda

Today we are going to look at projections of your current retirement strategy and discuss whether or not this will provide the lifestyle you are hoping for.



Items to Be Discussed
• What's important to you.
• Review your current strategy
• Ideas to help bridge the gap
• Useful information
• Taking care later in life

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Goals

Reviewing your goals is an important step in making sure the action plan is on the right course. Listed below are the items that you said were important to you.

Goals to Be Accomplished
Retirement Peace of Mind
Travel
Leaving a Legacy

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Retirement Basics

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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 the 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 2017, however, average life expectancy had increased to 78.6 years. The following graph[1] illustrates this change.

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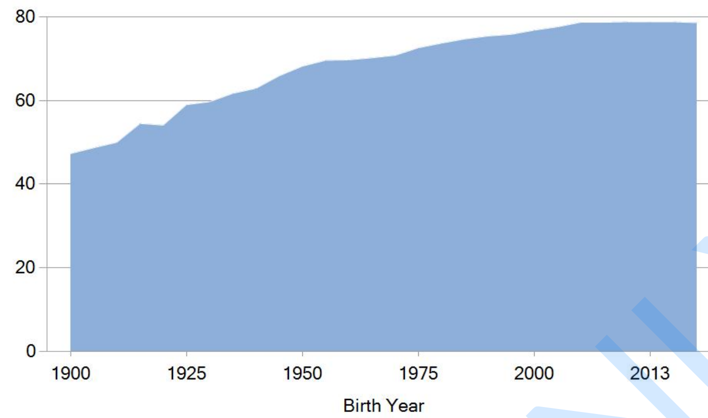
[1] Source: National Vital Statistics Reports, Volume 68, Number 7 – United States Life Tables, 2017, Table 19. June 24, 2019.

The Need for Retirement Planning

Average U.S. Life Expectancy (1900 – 2017)



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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

The Need for Retirement Planning

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.

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Call me with questions 888-555-3162
Presented by Paul Reed, CLU, LUTCF

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

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[1] "Americans' Perspectives on New Retirement Realities and the Longevity Bonus, a 2013 Merrill Lynch Retirement Study, conducted in partnership with Age Wave." © 2013 Bank of America; All rights reserved

Do You Desire "Retirement Peace of Mind?"

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.

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Do You Desire "Retirement Peace of Mind?"

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

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Do You Desire "Retirement Peace of Mind?"

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.

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Early or Delayed Retirement's Effect on Social Security Benefits

Full retirement age (FRA) is the age at which "full" Social Security retirement benefits – 100% of an individual's Primary Insurance Amount (PIA)[1] – are available. For many years, FRA was set at age 65. Beginning with individuals born in 1938, FRA gradually increases until it reaches age 67 for those born in 1960 or later.

If an individual chooses to receive retirement benefits before his or her FRA, the benefit paid is reduced to reflect the fact that income will be paid over a longer period of time. Similarly, if an individual chooses to delay retirement benefits, the benefit is increased for each year of delay (up to age 70) beyond FRA. The table below shows the effect of early or delayed retirement on an individual's retirement benefit, depending on the year of birth.

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Retirement Benefit as a Percentage of the Primary Insurance Amount at Various Ages[2]

Year of Birth	Full Retirement Age (FRA)	Credit for each year of delayed retirement after FRA (Percent)	Benefit as a % of PIA at Age						
			62	63	64	65	66	67	70
1924	65	3	80	86⅔	93⅓	100	103	106	115
1925-1926	65	3½	80	86⅔	93⅓	100	103½	107	117½
1927-1928	65	4	80	86⅔	93⅓	100	104	108	120
1929-1930	65	4½	80	86⅔	93⅓	100	104½	109	122½
1931-1932	65	5	80	86⅔	93⅓	100	105	110	125
1933-1934	65	5½	80	86⅔	93⅓	100	105½	111	127½

[1] The PIA is calculated by the Social Security Administration based on a person's lifetime earnings record.

[2] Source: Social Security Administration.

Early or Delayed Retirement's Effect on Social Security Benefits

Retirement Benefit as a Percentage of the Primary Insurance Amount at Various Ages[1]									
Year of Birth	Full Retirement Age (FRA)	Credit for each year of delayed retirement after FRA (Percent)	Benefit as a % of PIA at Age						
			62	63	64	65	66	67	70
1935-1936	65	6	80	$86^{2}/_{3}$	$93^{1}/_{3}$	100	106	112	130
1937	65	6½	80	$86^{2}/_{3}$	$93^{1}/_{3}$	100	106½	113	132½
1938	65, 2 mos	6½	$79^{1}/_{6}$	$85^{5}/_{9}$	$92^{2}/_{9}$	$98^{8}/_{9}$	$105^{5}/_{12}$	$111^{11}/_{12}$	$131^{5}/_{12}$
1939	65, 4 mos	7	$78^{1}/_{3}$	$84^{4}/_{9}$	$91^{1}/_{9}$	$97^{7}/_{9}$	$104^{2}/_{3}$	$111^{2}/_{3}$	$132^{2}/_{3}$
1940	65, 6 mos	7	77½	$83^{1}/_{3}$	90	$96^{2}/_{3}$	103½	110½	131½
1941	65, 8 mos	7½	$76^{2}/_{3}$	$82^{2}/_{9}$	$88^{8}/_{9}$	$95^{5}/_{9}$	102½	110	132½
1942	65, 10 mos	7½	$75^{5}/_{6}$	$81^{1}/_{9}$	$87^{7}/_{9}$	$94^{4}/_{9}$	101¼	108¾	131¼
1943-1954	66	8	75	80	$86^{2}/_{3}$	$93^{1}/_{3}$	100	108	132
1955	66, 2 mos	8	$74^{1}/_{6}$	$79^{1}/_{6}$	$85^{5}/_{9}$	$92^{2}/_{9}$	$98^{8}/_{9}$	$106^{2}/_{3}$	$130^{2}/_{3}$
1956	66, 4 mos	8	$73^{1}/_{3}$	$78^{1}/_{3}$	$84^{4}/_{9}$	$91^{1}/_{9}$	$97^{7}/_{9}$	$105^{1}/_{3}$	$129^{1}/_{3}$
1957	66, 6 mos	8	72½	77½	$83^{1}/_{3}$	90	$96^{2}/_{3}$	104	128
1958	66, 8 mos	8	$71^{2}/_{3}$	$76^{2}/_{3}$	$82^{2}/_{9}$	$88^{8}/_{9}$	$95^{5}/_{9}$	$102^{2}/_{3}$	$126^{2}/_{3}$
1959	66, 10 mos	8	$70^{5}/_{6}$	$75^{5}/_{6}$	$81^{1}/_{9}$	$87^{7}/_{9}$	$94^{4}/_{9}$	$101^{1}/_{3}$	$125^{1}/_{3}$
1960 and later	67	8	70	75	80	$86^{2}/_{3}$	$93^{1}/_{3}$	100	124

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[1] Source: Social Security Administration.

Social Security Retirement Claiming Strategies for Married Couples

For many Americans, Social Security benefits are an important source of retirement income. How *much* a retiree receives each month from Social Security is affected by a number of factors, including the retiree's lifetime earnings history, the age at which he or she applies for benefits, and whether more than one type of benefit may be available.

Carefully choosing when and how to claim Social Security retirement benefits can significantly increase the total dollar amount of benefits received. For an unmarried individual, deciding when to claim Social Security retirement benefits is relatively straightforward. For married couples, however, it is a more involved decision.

Basic Ground Rules for Claiming Retirement Benefits

Birth Year	Full Retirement Age
1943-1954	66
1955	66 + 2 months
1956	66 + 4 months
1957	66 + 6 months
1958	66 + 8 months
1959	66 + 10 months
1960 and Later	67

- Primary Insurance Amount: All Social Security benefits are based on a worker's lifetime earnings record. Higher lifetime earnings generally result in higher benefits. Based on the earnings record, the Social Security Administration calculates an amount, called the "Primary Insurance Amount," (PIA). The PIA is the basic value upon which all of the worker's (and dependent's) benefits are based.

- Full retirement age: For many years, the "full" retirement age (FRA), the age at which "full" benefits -100% of an individual's PIA - are available, was age 65. However, for those born in 1938 or later, FRA has gradually been increasing. It is scheduled to reach age 67 for those born in 1960 or later.

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Social Security Retirement Claiming Strategies for Married Couples

- Early retirement = *reduced* benefits: Age 62 is generally the earliest age that someone can begin to receive Social Security retirement benefits. However, if retirement benefits begin before an individual's FRA is reached, the benefit paid is reduced to reflect the fact that income will be paid over a longer period of time. An individual's PIA is reduced by 5/9 of 1% for each month, up to 36 months, that the individual applies before FRA. If the individual applies for benefits more than 36 months before FRA, an additional reduction of 5/12 of 1% is applied for each month in excess of 36.

- Delayed retirement = a *larger* benefit: If an individual delays applying for retirement to FRA or beyond, the benefit is increased. For those born in 1943 or later, delaying retirement increases the benefit by 8% of the full PIA for each full year they wait beyond FRA. The maximum delayed credit is reached at age 70.

- Working and receiving benefits simultaneously: Individuals under FRA, who are both working and receiving Social Security benefits, are subject to certain earnings limitations. Once these limitations are exceeded, a recipient's Social Security benefits are reduced. For 2020, for those under FRA, benefits are reduced by one dollar for every two dollars in excess of $18,240. If the worker reaches FRA in 2020, benefits are reduced by one dollar for every three dollars of earnings in excess of $48,600. At FRA, these "lost" benefits are later partially restored through a benefit re-computation that takes into account the number of months of reduced or no benefits.

Unmarried Individuals

For single individuals, deciding when to apply for retirement benefits is relatively easy; they have only the retirement benefit itself to consider. Apply early, get a reduced benefit; apply later, get a larger benefit.

Married Couples – A More Complex World

For married couples, the situation is more complex, primarily because there are three types of benefits that may be claimed by spouses:

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Social Security Retirement Claiming Strategies for Married Couples

1. *Retirement benefit*: The benefit an individual receives based on his or her own earnings record. If both spouses have worked, each may independently qualify for a retirement benefit. As with unmarried individuals, claiming retirement benefits before FRA will provide a reduced benefit; claiming at or after FRA will provide a larger benefit.
2. *Spousal benefit*: A benefit payable to the spouse of a retired worker. If the spouse has reached FRA, the benefit is generally 50% of the worker's PIA. A spouse has the option of claiming the larger of the spousal benefit, or any benefit he or she has earned in his or her own right.
3. *Survivor's benefit*: A benefit payable to a deceased worker's surviving spouse. If the survivor has reached FRA, the benefit is usually 100% of the worker's PIA.

Bi-Partisan Budget Act of 2015

The Bi-Partisan Budget Act of 2015 phased-out two additional spousal-benefit-claiming strategies that had been available in previous years. The first of these, the "Restricted Application" strategy, was generally used by the higher-earning spouse. The option to file a restricted application is still available for individuals who were at least age 62 in 2015.

1. A low-earning spouse must have claimed his or her own retirement benefit.
2. The high-earning spouse would then file a "restricted application" where he or she would choose to receive only the spousal benefit, while allowing his or her own retirement benefit to grow (via delayed retirement credits), up to age 70.
3. At 70, the high-earning spouse would then switch from spousal benefits to his or her own retirement benefit.

- File-and-Suspend: In the "File-and-Suspend" approach, a worker, upon reaching FRA, filed for retirement benefits and then immediately *suspended* their receipt. [1]

1. The spouse then qualified for "spousal" benefits. Social Security would compute both the spousal benefit (generally 50% of the worker's PIA) and any retirement

[1] Under both old and new law, the ability to file and suspend is not available until the work reaches FRA. The new law still allows a worker to file-and-suspend, but doing so also suspends all other benefits based on the worker's earnings record. The *worker* must actually receive a benefit in order for a spouse or other qualifying dependents to receive benefits.

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Social Security Retirement Claiming Strategies for Married Couples

benefit the spouse may have earned in his or her own right, and, in effect, awarded the *larger* of the two. Except for cost-of-living adjustments, this benefit would continue unchanged until either the spouse or the worker died.

2. The worker, by suspending receipt of benefits, would also have received an increased retirement benefit for each month of delay, up to age 70. This would also have provided a larger widow(er)'s benefit (generally 100% of the deceased worker's PIA) to the spouse, assuming that: (a) the worker pre-deceased the spouse, and (b) the worker's retirement benefit was larger than the benefit the spouse was receiving at the time the worker died.
3. The "File and Suspend" approach was last available to those who reached age 66, and filed-and-suspended, on or before April 29, 2016.

Choosing Which Benefit to Claim

In order to maximize Social Security retirement benefits, and with multiple possibilities, how does a married couple decide when and which benefit to apply for? One approach involves using a specialized software program. This type of analysis takes into account factors such as the relative ages of each spouse, their individual earnings history, and an anticipated mortality age for each. The end result is a theoretical "optimal" claiming strategy.

This optimal strategy, however, is often affected by real-world complications such as poor health (i.e. a shorter life expectancy), a need for income now, a "down" stock market, or other unexpected problems. However, clearly understanding the benefits that are available, and how to best utilize them, can help a married couple integrate the theoretical with the real-world and maximize the retirement and widow(er)'s benefits received from Social Security.

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Seek Professional Guidance

The right claiming strategy for Social Security retirement benefits can make an enormous contribution to a retirement that is both secure and comfortable. Because of the complexities involved, the advice and guidance of experienced, trained financial professionals in making these decisions is strongly recommended. Social Security questions can also be answered by directly contacting the Social Security Administration.

Social Security Break-Even

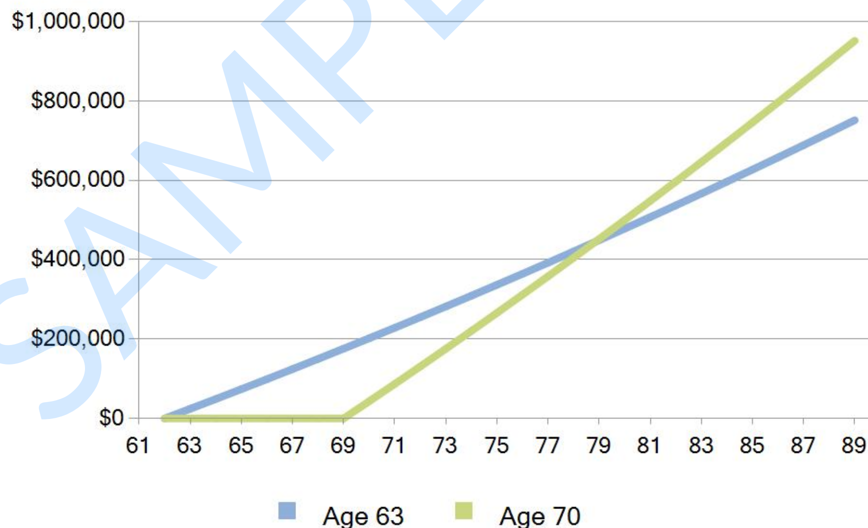
Assumptions:

Analysis date: 04/28/2009
Date of birth: 01/01/1970
Monthly Social Security benefit method: Based on current annual salary
Annual salary: $85,000
Annual Social Security benefit rate of inflation: 1.00%

Start at Age	Initial Annual Benefit	Total Benefit
63	$24,373	$751,192
70	$43,203	$951,291

If you wait until age 70 to begin collecting benefits, by age 79 you will have received more than if you began collecting benefits at age 63.

Cumulative Social Security Benefits



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Future Value of a Single Sum and Periodic Additions

Item Description	Value
Single sum	$200,000
Frequency of periodic additions	Monthly
Monthly additions	$600
Annual rate of return[1]	7.00%
Number of months to make additions	216
Future sum, if additions are made:	
At the end of each month	**$960,940**
At the beginning of each month	**$962,448**

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Example

If you place $200,000 into an account earning an annual return of 7.00%, compounded monthly, and deposit $600 at the beginning of each month, then in 216 months your account will grow to $962,448

[1] The rates of return used in this illustration are not indicative of any actual investment and will fluctuate in value. An investment will not provide a consistent rate of return; years with lower (or negative) returns than the hypothetical returns shown may substantially affect the scenario presented.

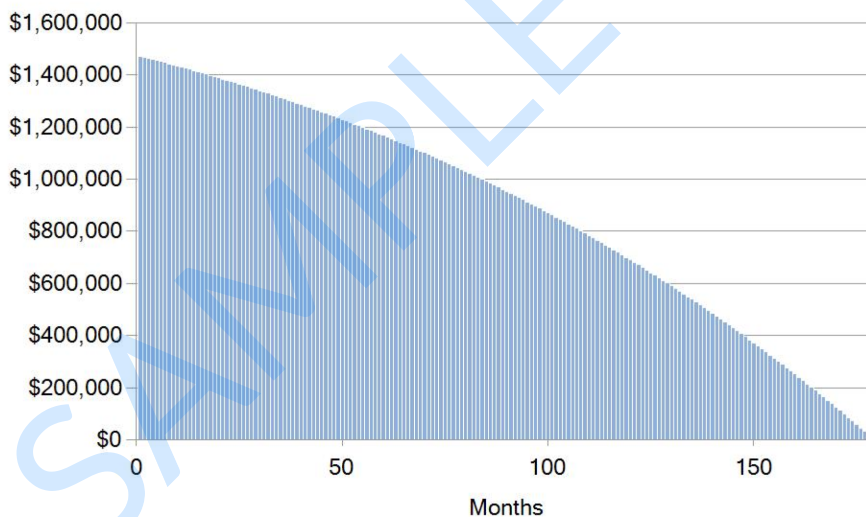
Length of Time a Sum Will Last

Item Description	Value
Current sum	$1,476,000
Assumed annual interest rate[1]	4.00%
Frequency of withdrawals	Monthly
Beginning monthly withdrawal amount:	$9,000
Inflate withdrawal by:	3.00%
Sum will last 14 years and 11 months	

Example

If you have $1,476,000 in your account earning an annual return of 4.00%, compounded monthly, and you withdraw $9,000 monthly, with the withdrawal inflating each year by 3.00%, the account will be exhausted in 14 years and 11 months.

Length of Time a Sum Will Last



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[1] The rates of return used in this illustration are not indicative of any actual investment and will fluctuate in value. An investment will not provide a consistent rate of return; years with lower (or negative) returns than the hypothetical returns shown may substantially affect the scenario presented.

Rate of Withdrawal in Retirement

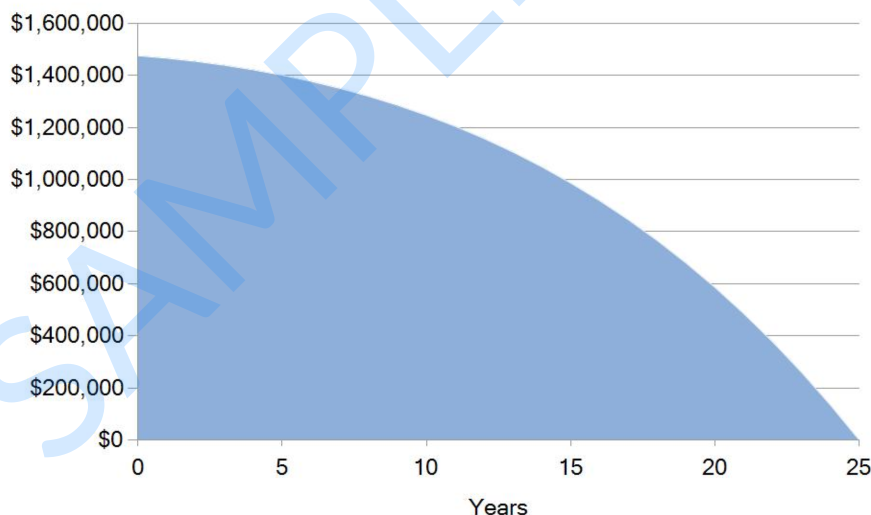
When you retire, you know how much you have saved. The question becomes "How much can you spend?"

Item Description	Value
Retirement savings	$1,476,000
Rate of return	4.00%
Number of years	25
Inflation Rate	3.00%
Annual withdrawal rate	4.48%
First year withdrawal amount	$66,137

Example

Starting with 4.48% withdrawal on you retirement savings and increasing that withdrawal amount by 3.00% annually for inflation while growing the remainder of your savings at 4.00% will cause your savings to be exhausted in 25 years.

Retirement Savings Balance



This is a hypothetical example and not a promise of future performance.
This calculator assumes withdrawal at the beginning of the year and interest compounded annually.

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Bi-Weekly Mortgage

Assumptions:

Amount of loan: $350,000
Annual interest rate: 3.25%
Number of monthly payments: 300

	Monthly	Bi-Weekly
Payment Amount	$1,706	$853
Total Interest	$161,682	$141,194
Interest Savings		$20,488
Number of Years to Pay	25.00	22.15

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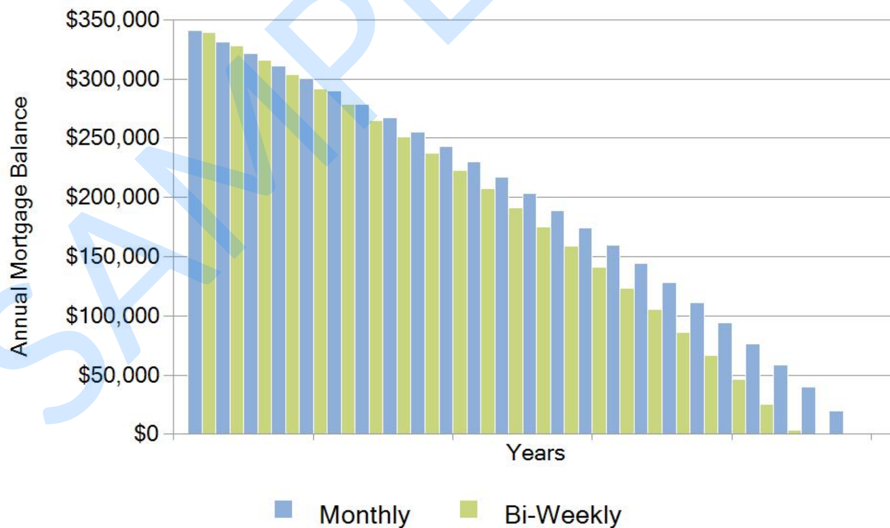
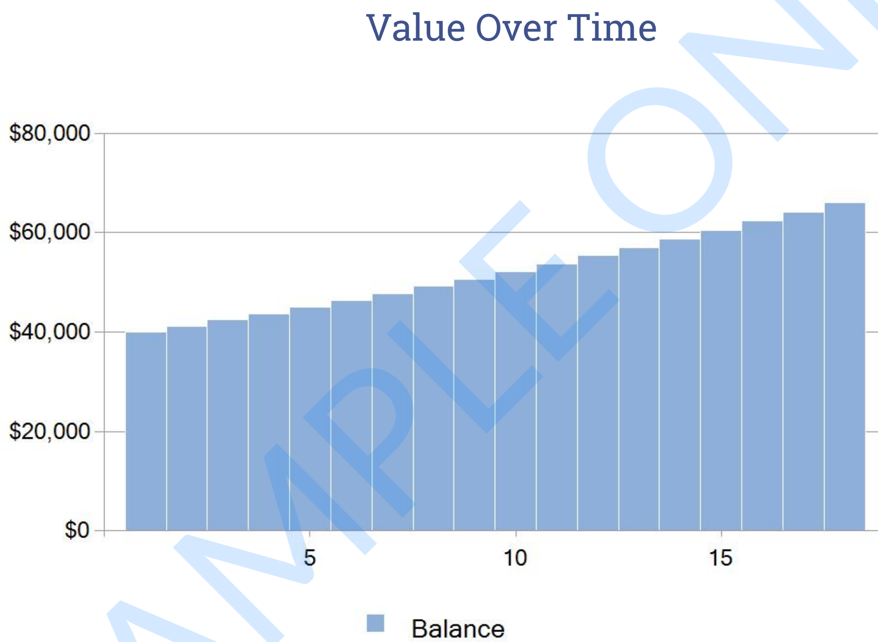


Value over Time

Item Description	Value
Annual rate of return compounded annually	3.00%
Annual savings	$0
Number of years	18
Future amount	$66,136

Initial amount would be $38,848.

Value Over Time



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Getting to Know You

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Retirement Needs Analysis Data

Personal

Date 04/28/2020

Client(s) name	Date of birth	Retirement age	Social security age
1) Paul Sample	01/01/1970	67	67
2) Sally Sample	01/01/1972	67	67

☑ Check if clients are married

Income Needs

Beginning at retirement (choose one)

☑ Monthly amount $9,000 or ☐ % of current monthly income

Beginning 10 years after retirement (choose one):

☑ Monthly amount $7,000 or ☐ % of current monthly income

Beginning 15 years after retirement (choose one):

☑ Monthly amount $6,000 or ☐ % of current monthly income

Income Sources

Employment income (Annual)

Paul $87,000 Sally $65,000

Monthly Social Security benefits

Paul	Sally
☐ Spousal Benefits Only ☐ Not Eligible	☐ Spousal Benefits Only ☐ Not Eligible
☑ Based on Current Earnings	☑ Based on Current Earnings
☐ Based on Maximum Earnings	☐ Based on Maximum Earnings
☐ PIA Input (values below required)[1]	☐ PIA Input (values below required)[1]
☐ Monthly Amount Input (values below required)[2]	☐ Monthly Amount Input (values below required)[2]
Retirement $ Survivor $	Retirement $ Survivor $

[1] Use the Social Security benefit at the client's "Full Retirement Age" (FRA).

[2] For retirement input this is the amount to be received at Social Security Age. For survivor input this amount is the PIA

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Retirement Needs Analysis Data

Other income sources

Name of income source	Owner	Amount	Start age	Monthly/ lump sum[1]	P/V[2] or F/V	End age	Inflated annually	Available to survivor	Income Type
1) Pension	Paul	$1,000	67	Monthly	PV	Life	3%	100%	Other
2)									
3)									
4)									
5)									

Capital

Retirement plans

Client(s)	Retirement plan balance	Monthly savings	Company match	Annual increase in contributions	Assumed rate of return
1) Paul	$136,000	$300	$150	4%	7%
2) Sally	$86,500	$200	$100	4%	7%

Other assets

Balance	$6,000
Monthly Contributions	$50
Assumed Rate of Return	6%

Assumptions

Paul mortality age	90	Annual employment inflation rate – Sally	4%
Sally mortality age	90	Annual Social Security benefit inflation rate	2%
Annual Inflation rate	4%	Assumed rate of return during retirement	6%
Annual employment inflation rate – Paul	4%	Solution rate of return	%

[1] Enter "M" if paid monthly or "L" if paid as one lump sum.

[2] Enter "P" if amount is present value or "F" if amount is future value.

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Capital Available for Retirement

Current Assets

You have indicated that you currently own the following assets that will be used to support your retirement needs:

Paul's retirement plan current value of $136,000 assuming a rate of return of 7.00%
Sally's retirement plan current value of $86,500 assuming a rate of return of 7.00%
Other assets current value of $6,000 assuming a rate of return of 6.00%

Monthly Savings

You are currently, and plan to continue, contributing to the following assets:[1]

Paul's retirement plan - $300 with a company contribution of $150
Sally's retirement plan - $200 with a company contribution of $100
Other assets - $50
Paul's contributions increasing at 4.00% per year; Sally's at 4.00% per year

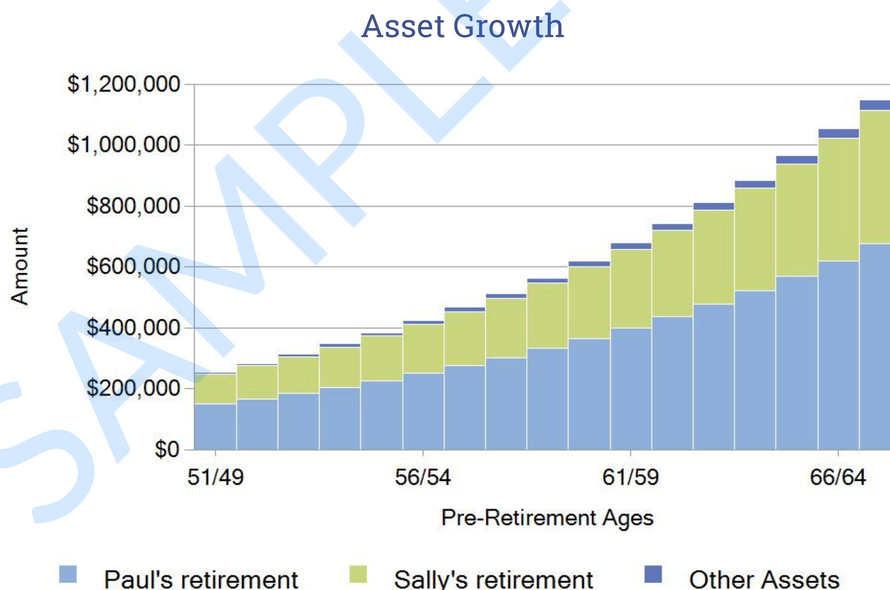
Available Assets

You will have accumulated the following at Paul's age 67:
Paul's retirement assets - $676,162
Sally's retirement assets - $437,126
Other assets - $34,347

Analysis

You will have accumulated $1,147,634 by Paul's age 67, Sally's age 65.

Asset Growth



An additional $593,708 will be required at retirement to meet your goals.

Values shown in this presentation are hypothetical and not a promise of future performance.

[1] Monthly amounts shown are in today's dollars.

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Retirement Analysis

Income Goals

You have indicated that you would like to have the following monthly retirement income:[1] At Paul's age 67 and Sally's age 65 - 71.05% of current income, or $9,000. At Paul's age 77 and Sally's age 75 - 55.26% of current income, or $7,000. At Paul's age 82 and Sally's age 80 - 47.37% of current income, or $6,000.

Income Sources

To support your retirement goals you have the following monthly sources:

Earned Income

Sally's employment income from age 65 until age 67

Social Security

Social Security benefits at Paul's age 67 - $3,462

Social Security benefits at Sally's age 67 - $2,831

Other Income

Pension beginning at Paul's age 67 - $1,653

Assets Available at Retirement

Applied Assets

Paul retirement assets - $676,162

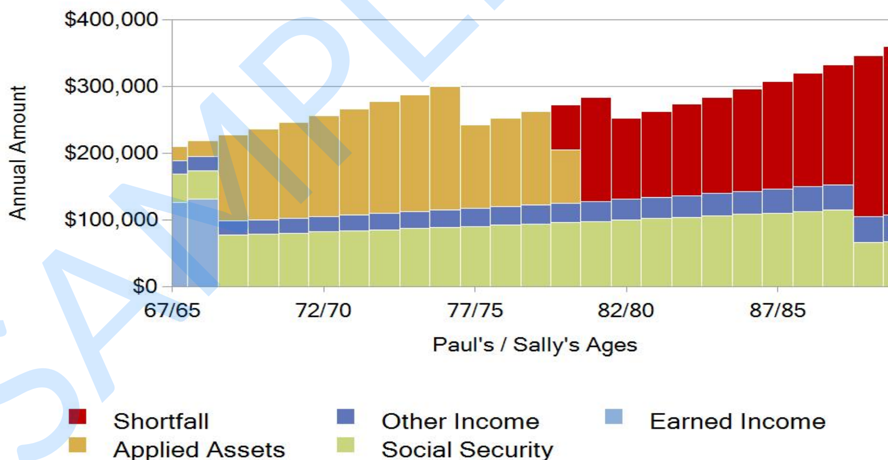
Sally retirement assets - $437,126

Other assets - $34,347

Results

According to the analysis: Your funds will be depleted at Paul's age 80. Your current savings of $550 will need to be increased by $2,910 with the additional monthly savings earning a rate of return of 0.00%.

Retirement Cash Flows



An additional $593,708 will be required at retirement to meet your goals.

Values shown in this presentation are hypothetical and not a promise of future performance.

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[1] Monthly amounts shown are in today's dollars.

Retirement Timeline

Assumptions:

Retirement Rate of Return: 6.00%

Rate of Inflation: 4.00%

Analysis Results:

Total of Annual Shortfalls: $1,912,038

Additional Capital Required: $593,708

Ages	Need	Sources				Asset Balance	Annual Shortfall
		Earned Income	Social Security	Other Income	Earnings from Assets		
					Beginning Balance	**$1,147,634**	
67/65	$210,373	$126,614	$41,542	$19,834	$70,043	$1,195,293	$0
68/66	218,788	131,678	42,373	20,429	72,918	1,243,903	0
69/67	227,540	0	77,192	21,042	72,441	1,187,039	0
70/68	236,641	0	78,736	21,673	68,704	1,119,511	0
71/69	246,107	0	80,311	22,324	64,300	1,040,338	0
72/70	255,951	0	81,917	22,993	59,166	948,463	0
73/71	266,189	0	83,555	23,683	53,237	842,750	0
74/72	276,837	0	85,227	24,394	46,444	721,977	0
75/73	287,910	0	86,931	25,125	38,709	584,831	0
76/74	299,427	0	88,670	25,879	29,951	429,905	0
77/75	242,203	0	90,443	26,655	22,374	327,174	0
78/76	251,891	0	92,252	27,455	15,804	210,794	0
79/77	261,967	0	94,097	28,279	8,380	79,584	0
80/78	272,445	0	95,979	29,127	31	0	67,724
81/79	283,343	0	97,899	30,001	0	0	155,444
82/80	252,580	0	99,857	30,901	0	0	121,823
83/81	262,683	0	101,854	31,828	0	0	129,002
84/82	273,191	0	103,891	32,783	0	0	136,517
85/83	284,118	0	105,969	33,766	0	0	144,384

Values shown in this presentation are hypothetical and not a promise of future performance

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Retirement Timeline

Ages	Need	Sources				Asset Balance	Annual Shortfall
		Earned Income	Social Security	Other Income	Earnings from Assets		
86/84	$295,483	$0	$108,088	$34,779	$0	$0	$152,616
87/85	307,302	0	110,250	35,823	0	0	161,230
88/86	319,595	0	112,455	36,897	0	0	170,242
89/87	332,378	0	114,704	38,004	0	0	179,670
/88	345,673	0	65,507	39,144	0	0	241,022
/89	359,500	0	66,817	40,319	0	0	252,364

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Call me with questions 888-555-3162
Presented by Paul Reed, CLU, LUTCF

Alternatives to Achieving Retirement Goals

There are several alternatives available which will provide a better chance of meeting your goals.

You Can Save More Until Retirement

Your current savings of $550 will need to be increased by $2,910 with the additional monthly savings earning a rate of return of 0.00%.

You Can Earn More on Your Assets Until Retirement

The rate of return on your existing savings of 6.00% must be greater than 25%.

You Can Spend Less During Retirement

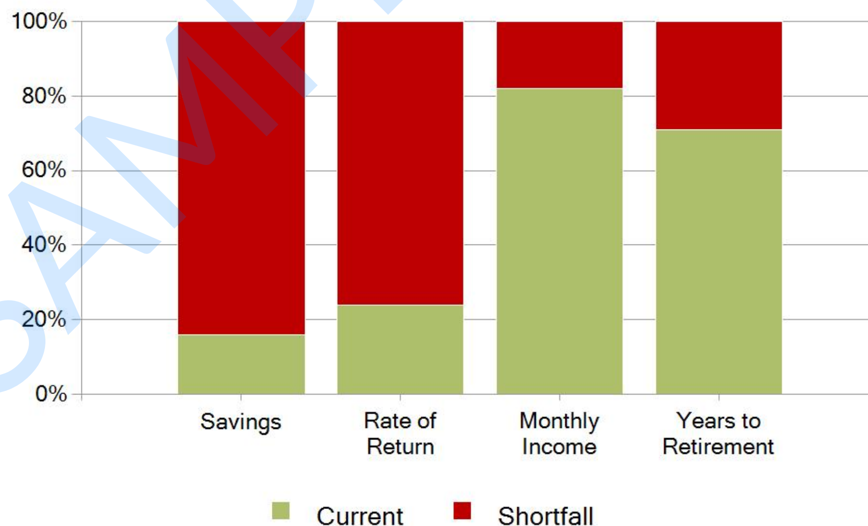
Your desired retirement spending goals will need to be reduced by 18.00% resulting in $7,380 per month during the first year of retirement.

You Can Retire Later

You can satisfy your spending goals if retirement is postponed until Paul's age 74 and Sally's age 74.

Each of these alternatives may not be possible to implement fully. Therefore, you might consider taking some steps in several different areas. Investments with the potential for a higher rate of return also have increased risk of losing principal, and may have increased short-term volatility.

Alternatives to Achieving Retirement Goals



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How Work Affects Social Security Benefits

Monthly Social Security benefits are paid to individuals for a number of reasons, including retirement, disability, and death. If a Social Security recipient also works, some of the benefits may be reduced if the income earned exceeds certain dollar amounts.

However, the month an individual reaches "Full Retirement Age," or FRA, Social Security benefits are no longer reduced, regardless of the amount of income earned.

FRA is the age at which an individual can expect to receive 100% of his or her normal retirement benefit, without reduction for early retirement. For those born in 1937 or earlier, FRA is age 65. For those born after 1937, FRA gradually increases until it reaches age 67 for those born in 1960 or later.

Age of Social Security Benefits Recipient	Annual Exempt Amount[1]		One Dollar of Benefits Is Lost for Every Two or Three Dollars You Earn Over the Exempt Amount
	2019	2020	
Under FRA	$17,640	$18,240	Every Two Dollars
Year FRA Reached	$46,920	$48,600	Every Three Dollars
Month FRA Reached	No Limit	No Limit	No Loss of Benefits

Example (1): An individual begins receiving Social Security benefits at age 63 in January 2020, with an entitlement of $500 per month. If the retiree works and earns $28,240 during the year, he or she would have to give up $5,000 of Social Security benefits ($1 for every $2 over the $18,240 limit), but would still receive $1,000.

Example (2): Assume an individual reaches FRA in November 2020. Also assume the individual earns $61,920 during the year, with $51,600 of this amount being received in the first 10 months of the year. The individual would give up $1,000 in benefits, $1 for every $3 earned above the $48,600 limit. Assuming a Social Security retirement benefit of $500 per month, the individual would still receive $4,000 out of $5,000 for the first 10 months of the year. Full benefits of $1,000 ($500 per month) would be received for November and December, after FRA was reached.

[1] Source: Social Security Administration

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How Work Affects Social Security Benefits

What Counts as Earnings?

Any wages earned after retirement from work as an employee and any net earnings from self-employment count as earnings. Wages include bonuses, commissions, fees, vacation pay, pay in lieu of vacation and cash tips of $20 or more in a month.

What Doesn't Count as Earnings?

- Investment income, including stock dividends, interest from savings accounts, income from annuities, limited partnership income and rental income from real estate you own (unless you are a real estate dealer).
- Income from Social Security, pensions, other retirement pay and Veterans Administration Benefits.
- Gifts or inheritances.
- Royalties received after age 65 from patents or copyrights obtained before that year.
- If you are a retired partner, retirement payments from partnerships don't count if:
    - The payments continue for life under a written agreement which provides for payments to all partners or a class of them; and
    - You rendered no services to the partnership during the taxable year the retirement payments were received; and
    - Your share of the partnership capital was paid to you in full before the end of the partnership's taxable year and there is no obligation to you other than retirement payments.
- Income from self-employment received in a year after the year a person becomes entitled to benefits. This refers to income which is not attributable to services performed after the month of entitlement.

Benefits Withheld Restored at Full Retirement Age (FRA)

When an individual has had benefits withheld as a result of the Social Security retirement earnings test, these "lost" benefits are later restored, beginning at FRA. In the benefit re-computation at FRA, the actuarial reduction that was applied in the initial computation

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How Work Affects Social Security Benefits

(because the individual applied for benefits early) is adjusted (lessened) to reflect the number of months that he or she received no or partial benefits as a result of the earnings test. A larger benefit is then paid, beginning at FRA.

For example, assume a worker claims Social Security retirement benefits at age 62. He then takes a part-time job which, over time, results in 12 months of benefits being withheld. Once the worker reaches FRA, his retirement benefit will be re-calculated, in this case as if he had first taken Social Security retirement benefits 12 months later, at age 63, rather than at age 62. This recalculation effectively "recaptures" the benefits earlier withheld.

If spousal benefits are withheld under the earnings test, they will be adjusted upward when the spouse (not the worker) attains FRA. For a spouse who has already reached FRA, there is no subsequent adjustment to benefits to take into account months for which no or a partial benefit was paid as a result of the earnings test.

Online Information

The Social Security Administration has a great deal of information available on its website at: https://www.ssa.gov/.

The Social Security website also has a Retirement Earnings Test Calculator, available at: https://www.ssa.gov/OACT/COLA/RTeffect.html

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Roth IRAs

The Roth IRA differs from the traditional IRA in that contributions are never deductible and, if certain requirements are met, account distributions are free of federal income tax.[1]

Funding a Roth IRA

Annual contributions: A Roth IRA may be established and funded at any time between January 1 of the current year, up to and including the date an individual's federal income tax return is due, (generally April 15 of the following year), not including extensions.

Conversion of a traditional IRA account: A traditional IRA may be converted to a Roth IRA, with the conversion being a *taxable* event. For the year of conversion, the taxpayer must include in gross income previously deducted contributions plus net earnings (or minus net losses). For individual retirement annuities, gross income is generally increased by the fair market value of the contract on the date of conversion (through a re-designation) or distribution (if held inside an IRA). If a retirement annuity is completely surrendered, the cash received is the amount includable in income. Any 10% penalty tax for early withdrawal is waived. However, if a taxpayer withdraws amounts from the Roth IRA within five years of the conversion, the 10% penalty tax will apply to those amounts deemed to be part of the conversion, unless an exception applies.

Prior to 2018, a taxpayer who converted funds in a traditional IRA[2] to a Roth IRA could "undo" the transaction and "recharacterize" the converted funds, moving them back into the traditional IRA. However, for tax years beginning in 2018, the Tax Cuts and Jobs Act of 2017 (TCJA) permanently repealed the ability to recharacterize a Roth conversion to a traditional IRA.

TCJA did *not* repeal the ability of a taxpayer to convert funds in a Roth IRA to a traditional IRA, and then recharacterize the converted funds, moving them back into a Roth IRA.

[1] Income tax treatment of Roth IRAs at the state or local level may differ.

[2] The law also applies to SEP and SIMPLE plans.

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Roth IRAs

Rollovers from a qualified plan: Distributions from qualified retirement plans, IRC Sec. 457(b) governmental plans, and IRC Sec. 403(b) plans may also be rolled over to a Roth IRA.

These conversions are taxable events, with gross income for the year of conversion being increased by previously deducted contributions plus net earnings (or minus net losses).

Direct rollover from a designated Roth Account: Funds may be rolled into a regular Roth IRA from a designated Roth account that is part of a 401(k), 403(b), or 457(b) governmental plan. Such a rollover is not a taxable event and the filing status and MAGI limitations normally applicable to regular Roth contributions do not apply.

Military death payments: Under the provisions of the Heroes Earnings Assistance and Relief Tax Act of 2008, an individual who receives a military death gratuity and/or a payment under the Servicemembers' Group Life Insurance (SGLI) program may contribute to a Roth IRA an amount no greater than the sum of any military death gratuity and SGLI payment. Such a contribution is considered a qualified rollover contribution and must be made within one year of receiving the death gratuity or insurance payment. The annual dollar contribution limit and income-based phase-out of the dollar contribution limit do not apply to such contributions.

Type of Arrangements Permitted

There are currently two types of Roth IRAs.

- **Individual retirement accounts:** Trusts or custodial accounts with a corporate trustee or custodian.
- **Individual retirement annuities:** Special annuities issued by a life insurance company.

Contribution Limits

Limits: For 2020, an individual may contribute (but not deduct) the lesser of $6,000 or 100% of compensation[1] for the year. For a married couple, an additional $6,000 may be contributed on behalf of a lesser earning (or nonworking) spouse, using a spousal account.

[1] "Compensation" includes taxable wages, salaries, or commissions or the net income from self-employment.

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Roth IRAs

A husband and wife may contribute up to a total of $12,000, as long as their combined compensation is at least that amount.[1] If an IRA owner is age 50 or older, he or she may contribute an additional $1,000 ($2,000 if the spouse is also age 50 or older).

Other IRAs: The contribution limits for a Roth IRA are coordinated with those of a traditional IRA; a taxpayer may not contribute more than the annual limit for that tax year into a single IRA or a combination of traditional and Roth IRAs. Excess contributions to a traditional or Roth IRA are subject to a 6% excise tax.

Contribution phase out: For 2020, the maximum contribution to a Roth IRA is phased out for single taxpayers with MAGI between $124,000 and $139,000. For married couples filing jointly, the phase-out range is a MAGI of $196,000 to $206,000. For married individuals filing separately, the phase-out range is a MAGI of $0 to $10,000.[2]

Taxation of Distributions

A distribution from a Roth IRA that is a "qualified" distribution is excluded from gross income and is not subject to federal income tax. A distribution is qualified if it is made after a five-year waiting period[3] and at least one of the following requirements is met:

- after the taxpayer reaches age 59½; or
- due to the taxpayer's death; or
- because the taxpayer becomes disabled; or
- to pay for first-time-home-buyer expenses up to $10,000.

The **earnings** portion of a "non-qualified" distribution is subject to tax. To determine any taxable distribution, the funds are considered to be withdrawn in a specified order:

- Any withdrawal is considered to come first from nondeductible **contributions**, which are not subject to tax.

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[1] These amounts apply to 2020. For 2019, the maximum allowable contribution were also $6,000 for a single individual and $12,000 for a married couple.

[2] For 2019, the phase-out ranges were: (1) MFJ – MAGI of $193,000 - $203,000 and (2) Single - $122,000 - $137,000. For those using the MFS filing status, the phase-out range is $0 - $10,000, which does not change.

[3] Generally, five years after a contribution is first made, or amounts are converted to a Roth IRA.

Roth IRAs

- After all contributions have been withdrawn, any **conversion** amounts are considered next. A distribution of converted funds is not included in gross income, but may be subject to the 10% premature distribution penalty if the funds are withdrawn within five years of being converted.
- Once all contributions and conversions have been withdrawn, any remaining funds are deemed to be **earnings**, and, when distributed, are included in gross income.

Premature Distributions

If a **taxable** distribution is received prior to age 59½, a 10% penalty tax is added to the regular income tax due, unless one or more of the following exceptions apply:

- A distribution is made because of the death or disability of the account owner.
- A withdrawal is part of a scheduled series of substantially equal periodic payments.
- A distribution is rolled-over into another Roth IRA.
- A withdrawal is used to pay for deductible medical expenses.
- The distribution is used to pay for certain qualified higher-education expenses.
- Amounts are withdrawn to pay for first-time homebuyer expenses of up to $10,000.
- In certain situations, to pay health insurance premiums for unemployed individuals.
- Distributions by certain military reservists called to active duty after 09/11/2001.
- A distribution is transferred to a Health Savings Account (HSA).
- In case of an IRS levy on the account.
- To pay expenses (up to $5,000 per parent) related to the birth or adoption of a child.

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Roth IRAs

Distribution Requirements

Roth IRAs are not subject to the mandatory required minimum distribution (RMD) rules during the life of the owner (triggered at age 72), applicable to traditional IRAs. However, there are post-death minimum distribution rules applicable to non-spouse beneficiaries who inherit a Roth account.

Charitable Distributions

Federal income tax law provides for an exclusion from gross income of up to $100,000 for distributions made from a Roth or traditional IRA *directly* to a qualified charitable organization. The amount excluded from gross income may be reduced if an individual continues to make deductible IRA contributions after reaching age 70½. If applicable, a QCD counts towards the taxpayer's RMD requirements. The IRA owner (or beneficiary of an inherited IRA) must be at least age 70½ when the distribution is made. No charitable deduction is allowed for a QCD.

Transfers to Health Savings Accounts (HSAs)

Federal law allows for a limited, one-time, direct transfer of funds from an IRA to an HSA. If certain requirements are met, any otherwise taxable portion of the distribution is excluded from income and the 10% early distribution penalty will not apply.

Investment Alternatives

- **Banks, savings and loans, credit unions:** Certificates of deposit in Roth IRAs are generally insured by either the FDIC or the NCUA for amounts up to $250,000. Fixed and variable rates are available. There may be stiff penalties for early withdrawal.
- **Annuities:** Traditional, fixed individual retirement annuities issued by life insurance companies can guarantee fixed monthly income at retirement and may include a disability-waiver-of-premium provision. Variable annuities do not guarantee a fixed monthly income at retirement.
- **Money market:** Yield fluctuates with the economy. Investor cannot lock in higher interest rates. It is easy to switch to other investments.

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Roth IRAs

- **Mutual funds:** A wide variety of mutual funds with many investment objectives are available.
- **Zero coupon bonds:** Bonds are issued at a deep discount from face value. There are no worries about reinvesting interest payments. Zero coupon bonds are subject to inflation risk and interest rate risk.
- **Stocks:** A wide variety of investments (and risk) is possible. Losses are generally not deductible.
- **Limited partnerships:** Some limited partnerships are especially designed for qualified plans, specifically in the areas of real estate and mortgage pools.

Prohibited Investments or Transactions

- **Life insurance:** Roth IRAs cannot include life insurance contracts.
- **Loans to IRA taxpayer:** Self-borrowing triggers a constructive distribution of the entire amount in an IRA.
- **Collectibles:** Purchase of art works, antiques, metals, gems, stamps, etc., will be treated as a taxable distribution. Coins issued under state law and certain U.S. gold, silver and platinum coins are exceptions. Certain kinds of bullion may be purchased.

Other Factors to Consider

- What is the yield? More frequent compounding will produce a higher return. Is the interest rate fixed or variable? If interest rates drop, a fixed rate may be better, especially if you can make future contributions at the same fixed rate. If interest rates go up, you may be able to roll the account to another Roth IRA.
- How often can you change investments? Is there a charge?
- Refunds of federal income taxes may be directly deposited into an IRA.
- Federal bankruptcy law protects assets in Roth IRA accounts, up to $1,362,800.[1] Funds rolled over from qualified plans are protected without limit.

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[1] Effective April 1, 2019. The limit is indexed for inflation every three years.

How a Roth IRA Works

Account Owner

- Contributions are not tax deductible.
- Total annual contribution is limited.[1]
- Annual contribution limits are coordinated with any traditional IRA.

ROTH IRA ACCOUNT

- May be opened anytime between January 1 of current year until due date of tax return.
- Traditional IRA can be converted to a Roth IRA.[2]
- Earnings accumulate tax deferred.
- Account is usually self-directed (owner controls investments).
- A separate spousal Roth IRA may be established for a spouse with little or no earned income.

QUALIFIED DISTRIBUTIONS

- Qualified distributions are tax-free if a five-year holding period is met and one of the following applies: the owner is over 59½, dies, becomes disabled, or the distribution is for up to $10,000 of qualified first-time homebuyer expenses.

RETIREMENT

- Assuming compensation, contributions may continue to any age.
- No mandatory age for starting withdrawals.
- No minimum distributions required while owner is alive.
- Qualified distributions are received free of federal income tax.

DEATH

- Value of Roth IRA is included in owner's federal gross estate.
- If five-year holding period is met, beneficiaries receive funds free of federal income tax.
- A surviving spouse may choose to treat an inherited Roth IRA as his or her own.

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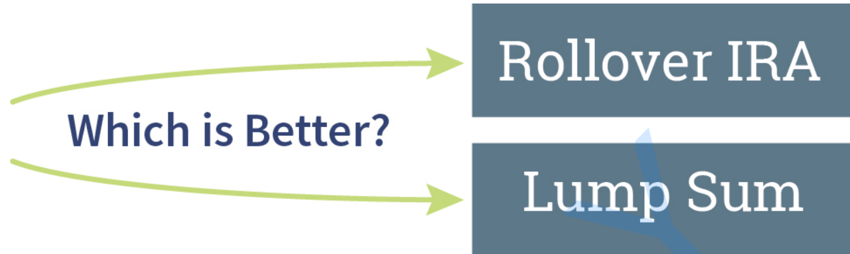
[1] The maximum annual contribution is the lesser of $6,000 ($12,000 for a married couple) or 100% of compensation. For married couples, no more than $6,000 may be contributed for either spouse. For a Roth IRA owner age 50 or older, an additional $1,000 may be contributed ($2,000 if the spouse is also age 50 or older). The maximum annual contribution to a Roth IRA is phased out for individuals with incomes in excess of certain limits. See IRC Sec. 408A(c).

[2] The conversion is a taxable event. Gross income is increased by previously deducted contributions, plus net earnings or minus net losses. A completed conversion may not be reversed. See IRC Sec. 408A(d)(6)(B)(iii).

IRA Rollover of Qualified Plan Values vs. Lump-Sum Tax Treatment



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At retirement, many individuals are faced with the choice of whether to take a lump sum distribution from their qualified plan and pay the income tax or roll the funds into an IRA[1] and pay the tax only as funds are withdrawn.

Consideration	Rollover IRA	Lump-Sum Distribution from Qualified Plan[2]
Generally	Lump sum[3] distributions from qualified plans may be transferred to an arrangement called a "rollover" IRA. To avoid the mandatory 20% federal income tax withholding rule, the payment must be made directly to the rollover IRA.	The taxpayer may choose to take all of a qualified retirement plan distribution outright and pay the tax.[4] There will be a mandatory 20% federal income tax withholding. Some states may also require income tax withholding.
Taxation at distribution	No tax is due at the time of the transfer to the IRA, but later distributions are taxed as ordinary income. The IRA must begin distribution by April 1 following the year in which the individual attains age 72.[5]	Taxpayers age 50 or more on 1/1/86 will have a choice at retirement age to: (1) Pay tax at capital gains rates (up to 20%) on pre-1974 portion and at ordinary income rates for the post-1973 portion, or (2) Elect 10-year averaging for the post-1973 portion or the entire amount (at 1986 rates).

[1] The comments in this report refer to a traditional IRA and not the Roth IRA.

[2] Individuals must be at least age 59½ to avoid the 10% income tax penalty for early withdrawals, subject to certain exceptions.

[3] There are special requirements for lump-sum distributions.

[4] If a lump-sum distribution from a qualified plan includes appreciated employer securities, the tax on the net unrealized appreciation may be deferred until the securities are disposed of in a taxable transaction.

[5] The age 72 "trigger" date applies to distributions required to be made after December 31, 2019, to individuals who reach age 70½ after that date. Under prior law, age 70½ was the mandated age for beginning distributions.

Annuities in Retirement Income Planning

For much of the recent past, individuals entering retirement could look to a number of potential sources for the steady income needed to maintain a decent standard of living:

- **Defined benefit (DB) employer pensions:** In these plans the employer promises to pay a specified monthly amount for the life of the retiree and/or spouse.
- **Social Security:** Designed to replace only a part of an individual's working income, Social Security provides a known benefit for the life of a retiree and his or her spouse.
- **Defined contribution (DC) plans:** Such as 401(k), 403(b), or 457[1] plans, which allow for contributions from the employee (in some cases from the employer as well) to a retirement account. The funds in the account, whatever they amount to at retirement, provide retirement income.
- **Individual retirement plans:** Such as Traditional IRAs or Roth IRAs. These are "individual" versions of employer-sponsored DC plans. The funds in the IRA at retirement, whatever the amount, are used to provide retirement income.

The Changing Face of Retirement

The saying that "life is what happens when you're making other plans" is particularly true when it comes to retirement income planning, for several key reasons:

- **Fewer employer pensions:** Over the past several decades, many employers have changed from defined benefit to defined contribution plans. From 1985 to 2000, for example, the rate of participation in defined benefit plans by full-time employees of medium and large private firms dropped from 80% to 36%.[2] A survey by the Bureau of Labor Statistics, published in 2018, found that only 22% of civilian workers in the U.S. participated in defined benefit pension plans.[3]

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[1] These refer to the sections of the Internal Revenue Code which authorize these different types of retirement plans.

[2] See, "Employee Participation in Defined Benefit and Defined Contribution Plans, 1985-2000." U.S. Bureau of Labor Statistics, updated June 16, 2004.

[3] National Compensation Survey: Employee Benefits in the United States, March 2018, Table 2.

Annuities in Retirement Income Planning

- **Social Security:** Social Security is a "pay-as-you-go" system, with current workers supporting those already receiving benefits. As the baby boom generation retires, the number of individuals remaining in the workforce to support them grows smaller. Although politically unpleasant, fiscal reality may force higher payroll taxes, reductions in benefits, or both.
- **We're living longer:** A child born in 1900 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.[1]

With the stable, lifetime income stream from employer pensions and Social Security playing an ever shrinking role, retirement income planning demands that each individual accept a higher degree of personal responsibility for both accumulating and managing the assets needed to pay for retirement. And managing these assets has to be done in a world where constant inflation, fluctuating interest rates, and sometimes volatile financial markets are a fact of life.

Longer lives mean the money has to last longer, although exactly how long is unknown.

One Possible Answer – Immediate Annuities

Life insurance is designed to help solve the problems created when someone dies prematurely. An annuity, on the other hand, is designed to protect against the possibility of living too long. An "immediate" annuity is a contract between an individual and an insurance company. In exchange for a single, lump-sum premium, the insurance company agrees to begin paying a regular income to the purchaser for a period of years or for life. The periodic payment amount depends on a number of factors:

- **Premium paid:** Generally the larger the payment, the larger the income stream.
- **Age:** Older individuals typically receive larger periodic payments.
- **Payout period selected:** A shorter payout period usually results in a larger payment.
- **Underlying investment medium:** Generally, either a fixed or a variable annuity.

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

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Annuities in Retirement Income Planning

FIXED ANNUITY

A fixed annuity pays a fixed rate of return. The insurance company invests in a portfolio of debt securities such as mortgages or bonds and pays out a fixed rate of return. Generally, this rate of return is guaranteed for a certain period of time after which a new rate is calculated. Most insurance companies offer a guaranteed minimum rate throughout the life of the contract. Such guarantees are based upon the claims-paying ability of the issuing insurance company.

VARIABLE ANNUITY

A variable annuity offers the potential for higher returns in exchange for assuming a higher level of risk. You can choose from among several types of investment portfolios, such as stocks or bonds. The amount of each annuity payment will fluctuate depending on the performance of the underlying investments. Variable annuities are long-term investments designed for retirement purposes. They have certain limitations, exclusions, charges, termination provisions, and terms for keeping them in force, and are sold by prospectus only.[1]

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Annuities are not insured by the FDIC or any government agency. Since an annuity may be payable far into the future, dealing with a financially solid insurer is essential. Credit rating companies such as A.M. Best, Standard and Poor's, or Moody's can provide an objective measure of a firm's financial stability.

Seek Professional Guidance

For many individuals, an immediate annuity can form an important part of their retirement income planning. Because an immediate annuity is a complex product, the advice and guidance of a trained financial professional is highly recommended.

[1] The prospectus for a variable annuity contains complete information including investment objectives, risk factors, fees, surrender charges, and any other applicable costs.

Taxation of Nonqualified Annuities

The term "annuity" refers to any situation where principal and interest are paid out in a series of regular payments. A "nonqualified" annuity, generally, is an annuity purchased by an individual from a life insurance company outside of an IRA or a qualified plan.[1] Many individuals purchase these annuities to provide a retirement income stream they cannot outlive.

Nonqualified annuities can be classified in a number of ways:

- **How purchased:** They can be purchased with a single, lump-sum payment, or with a series of payments made over time.
- **Underlying investment:** With a "fixed" annuity, the annuity owner's funds are placed in the insurance company's general investment account. In a "variable" annuity, these funds are placed in special investment subaccounts, as directed by the contract owner. Variable annuities are long-term investments designed for retirement. The value of the investment options chosen will fluctuate and, when redeemed, may be worth more or less than the original cost. A withdrawal charge may apply.
- **When payments begin:** An annuity can be "immediate," with payments beginning within one year of a contract being issued, or it can be "deferred," with payments beginning after an accumulation period, at a future date commonly called the "annuity starting date."
- **How long payments are made:** Payments can be made for a fixed period of time (e.g., 15 years), over the life or lives of specified individuals, or a combination of the fixed and lifetime options. (e.g., the longer of 15 years or until the annuitant[2] dies).

Unlike currently taxable investments, as long as the funds are kept **inside** the annuity, there is generally no federal income tax liability.[3] The tax "bite" is deferred until the funds are

[1] By way of contrast, a "private" annuity is an agreement between individuals, usually exchanging a valuable asset (such as a business) for a lifetime income. The party promising to pay the annuity is someone who is not in the business of issuing annuities.

[2] The "annuitant" is the individual whose life is used to determine how long payments will be made. Frequently the owner and the annuitant are the same individual.

[3] The discussion here concerns federal income tax law. State or local law can vary. Under federal income tax law, the deferral of tax is, with a few, narrow exceptions, not permitted if the annuity owner is a non-natural person such as a corporation or trust.

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Taxation of Nonqualified Annuities

withdrawn from the contract. Depending on how and when the funds are distributed, the income and/or estate tax impact can vary.

Amounts Not Received As an Annuity – Before Annuity Starting Date

Sometimes funds are withdrawn from the contract that are not periodic annuity payments. Such distributions may take the form of cash withdrawals, dividends, loans, or a partial surrender of the contract. If funds are withdrawn from a nonqualified annuity before the annuity starting date, the annuity owner must include in income the **smaller** of:

- The amount distributed, or
- The amount by which the cash value of the contract exceeds the owner's investment in the contract. In other words, as funds are distributed the **earnings are taxed first**.

Example: Sally Smith bought a nonqualified annuity several years ago for $11,000. Before the annuity starting date, she takes a cash distribution of $6,000. At the time of the distribution, the cash value of the contract is $15,000. The distribution is allocated first to earnings, so Sally includes $4,000 ($15,000 - $11,000) in her gross income. The remaining $2,000 is received as a tax-free return of her investment.

Distributions Before Age 59½ - 10% Penalty

If funds are distributed from an annuity before the owner reaches age 59½, an additional tax of 10% may be levied on that part of a distribution that is included in gross income.

Example: If Sally had been age 58 when she took her $6,000 distribution, she would have had to pay an additional tax of $400, 10% x the $4,000 included in her gross income. The 10% penalty would not apply to the $2,000 that represented a return of her original investment.

Not all distributions before age 59½ are subject to the 10% premature distribution penalty. Federal income tax law contains a number of exceptions, [1] including distributions which are:

- Made **after** the taxpayer reaches age 59½.

[1] See IRC Sec. 72(q) for a complete list of the exceptions to the 10% penalty. IRS Publication 575, Pension and Annuity Income, has a "plain English" discussion of the 10% penalty and the exceptions to it.

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Taxation of Nonqualified Annuities

- Made as a part of substantially equal periodic payments for the life (or life expectancy) of the taxpayer (contract owner) or the joint lives (or joint life expectancy) of the taxpayer and a designated beneficiary.
- Made because of the contract owner's total and permanent disability.
- Made because of the death of the contract holder (or primary annuitant if the holder is a non-natural person).
- Made from an immediate annuity, in which payments (made at least annually) must begin within one year of the contract's purchase date.
- Allocable to an investment in the contract before August 14, 1982.

Taxation of Annuity Payments – In General

For periodic payments made after the annuity starting date, each payment is considered to be made up of two parts:

- **Earnings** (dividends, interest, or other growth), which are currently taxable, and
- A **return of the annuity owner's invested funds**, known as the "investment in the contract," which is received income tax free. In simple terms, the investment in the contract is the total amount paid for the contract, less certain amounts received that were excluded from income.

An "exclusion ratio" is calculated which determines how much of each annuity payment is taxable, and how much is income tax free. This ratio is applied to each annuity payment until the owner has completely recovered his or her investment in the contract. Thereafter, each annuity payment is 100% taxable. The examples which follow illustrate how this works.

Fixed Annuities – Exclusion Ratio

In calculating the exclusion ratio, an estimate of the amount to be received must be made. If fixed payments are to be made for a fixed term, the calculation is relatively simple:

Example: Bill recently bought an annuity which will pay him $500 per month for 10 years, beginning when he reaches age 65. His expected return is $60,000 ($500 per month x 12 months per year x 10 years). If Bill's investment in the contract were $45,000, his exclusion ratio would be 75%, calculated as follows:

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Taxation of Nonqualified Annuities

$$\frac{\text{Investment in the contract} = \$45{,}000}{\text{Expected return} = \$60{,}000}$$

For each $500 monthly payment, Bill would exclude $375 ($500 x 75%) from his gross income. The remaining $125 is included in his gross taxable income.

If fixed payments are to be made for the life of one or more individuals, the expected return is calculated using federal government life expectancy tables:[1]

Example: Linda, age 60, purchased an immediate annuity which was to pay her $400 per month for the rest of her life, starting on the date of purchase. Her expected return is $4,800 ($400 per month x 12 months) x the life expectancy in years from Annuity Table V (single life), which is 24.2. Thus the total expected return equals $116,160, ($4,800 x 24.2). If her investment in the contract equals $80,000, her exclusion ratio is 69%, calculated as follows:

$$\frac{\text{Investment in the contract} = \$80{,}000}{\text{Expected return} = \$116{,}600}$$

For each $400 monthly payment, Linda can exclude $276 ($400 x 69%) from her gross income. The remaining $124 is included in taxable income. If Linda lives more than 24.2 years, she will have completely recovered her investment in the contract, and her annuity payments from that point on will be 100% taxable.

Variable Annuities – Proportionate Amount Excluded

In a variable annuity, annuity payments are not a fixed amount; they can vary up or down as the result of fluctuating investment returns or factors such as a cost-of-living index. Because payments vary, it is not possible to calculate, as is done with a fixed payment annuity, an "expected return," in order to determine the exclusion ratio for income tax purposes.

Instead, a proportionate amount of the investment in the contract is allocated to each taxable year. In simple terms, this is calculated by dividing the investment in the contract by the projected number of payments that are to be made. If the dollar amount of annuity payments received in a particular year does not exceed the amount of investment in the

[1] See IRS Reg. 1.72-9.

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Taxation of Nonqualified Annuities

contract allocated to that tax year, the payments are excluded from taxable income. If the total dollar amount of payments exceeds the amount of investment in the contract allocated for the year, the excess above the allocated amount is taxable.

Example: Steven pays $20,000 for a variable annuity that will make monthly payments to him over a 10-year period. The projected number of payments is thus 120 (10 years x 12 months per year). The amount of his investment in the contract that is allocated to each monthly payment is $166.67 ($20,000 ÷ 120). If Steven's contract begins making payments to him on July 1, and he receives a total of $1,200 for the year, $1,000.02 ($166.67 x 6) will be excluded from his income. He must include the remaining $199.98 in his gross income for the year.

If a variable annuity makes payments over the life expectancy of one or more individuals, the projected number of payments is calculated using government life expectancy tables.[1]

Example: Bob, age 65 and Alice, age 59, pay $50,000 for a variable annuity which will make annual payments to them over their joint life expectancy. According to Annuity Table VI (two lives) their joint life expectancy is 28.2 years. The amount of investment in the contract that is allocated to each annual payment is $1,773.05 ($50,000 ÷ 28.2). To the extent that any annual payment exceeds $1,773.05, the excess will be subject to taxation.

Gifting an Annuity

If a taxpayer transfers ownership of an annuity to another person, without receiving full and adequate consideration (e.g., a gift), the transaction is taxable. The transferor (the person making the gift) must include in income the excess of the contract's surrender value on the date of the transfer over the investment in the contract.

Example: Larry gifts an annuity to his son George. On the date of the transfer, the cash surrender value of the contract was $75,000; Larry's investment in the contract was $60,000. For the year of the transfer, Larry must include in income $15,000 ($75,000 - $60,000).

These rules do not apply to transfers between spouses nor to transfers incident to a divorce.

[1] See IRC Reg. 1.72-9.

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Taxation of Nonqualified Annuities

Exchanging an Annuity

In some situations, an annuity owner will want to exchange an existing annuity contract for a different contract. For income tax purposes, such exchanges are governed by IRC Sec. 1035. As long as certain requirements are met, these exchanges are tax-free and allow the annuity owner to roll-over any gain in the old contract to the new one.

Complete Surrender of an Annuity Contract

An amount received by a taxpayer for the complete surrender, redemption, or maturity of an annuity is taxable only to the extent that the proceeds exceed the investment in the contract.

> Example: Michael receives $95,000 for the complete surrender of an annuity contract. His investment in the contract is $75,000. In the year of surrender (regardless of when the proceeds are actually received), he must include $20,000 in gross income ($95,000 - $75,000).

Death

The tax treatment of amounts payable from an annuity because of the death of the owner/annuitant will vary, depending on when death occurs:

- **Death before annuity starting date:** Amounts payable at death are generally includable in the decedent's gross estate for estate tax purposes. If a named beneficiary receives the death benefit, the beneficiary must include in gross income the excess of the total amount received over the decedent's cost in the contract. Whether paid to the estate or a named beneficiary, amounts received in excess of the decedent's basis in the contract are income in respect of a decedent (IRD). Any estate tax attributable to the IRD generally qualifies as a Miscellaneous Itemized Deduction.

- **Death after annuity starting date:** Once regular annuity payments have begun, the tax results will depend first on how the annuity payments are to be made. If the annuity is payable for a single life only, once that life has ended there is nothing left to tax. Any unrecovered investment in the contract may be deducted on the decedent's final income tax return. Otherwise, there is neither an estate nor an income tax impact.

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Taxation of Nonqualified Annuities

For annuity contracts which provide a benefit to those left behind (for example a refund annuity or payments under a joint and survivor contract), the situation is slightly different. If the decedent's estate is to receive the benefits, they are includable in his or her gross estate. If the benefits are payable to a named beneficiary, the value of those benefits is also generally includable in the decedent's gross estate. For income tax purposes, with either a refund or payments to a survivor, the income is generally taxable only when the amounts received exceed the investment in the contract:

- **Surviving spouse is the beneficiary:** If the designated beneficiary (the individual who becomes the new owner of the contract) is the surviving spouse of the deceased owner, IRC Sec. 72(s) lets the survivor "step in the shoes" of the deceased owner, with the distribution requirements applied by treating the surviving spouse as the owner.

Partial Annuitization

Federal income tax law allows a portion of a nonqualified annuity contract, endowment, or life insurance contract to be annuitized while the balance is not annuitized, provided that the annuitization period is for 10 years or more, or is for the lives of one or more individuals.

The investment in the contract is allocated on a pro-rata basis between each portion of the contract from which amounts are received as an annuity, and the portion of the contract from which amounts are not received as an annuity. This allocation is made for the purposes of applying the rules relating to the exclusion ratio and in determining the investment in the contract, the annuity starting date, and amounts not received as an annuity. A separate annuity starting date is determined with respect to each portion of the contract from which amounts are received as an annuity.

Seek Professional Guidance

Commercial, nonqualified annuities are complex investments that can be structured to meet a wide range of needs and situations. Similarly, the federal tax treatment of these investment products is also complex. The guidance of qualified tax and investment professionals is strongly recommended.

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Thinking Ahead

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Health Care Planning In Retirement

Health care planning is a key part of the overall retirement planning process. Although a healthy life-style and good genes can help, it is a fact of life that as we age we need more medical care. Federal government statistics highlight this reality:

Per-Capita U.S. Personal Health Care Spending[1]

Age Group	2006	2008	2010	2012	2014
0-18	$2,742	$3,018	$3,295	$3,537	$3,749
19-44	3,579	3,906	4,166	4,455	4,856
45-64	7,929	8,458	9,035	9,508	10,212
65-84	14,479	15,644	16,335	16,780	16,977
85+	29,220	31,284	32,189	32,700	32,903

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Medicare

There are a number of ways that retired individuals pay for health care. Some are able to pay cash. Others are covered by health insurance plans provided by former employers or under coverage available through a spouse who is still working. For the majority of Americans age 65 and older, however, most health care is provided through the various elements of the federal government's Medicare program:

- **Medicare Part "A" Hospital Insurance:** Provides coverage for inpatient hospital care, post-hospital skilled nursing facility care, home health care, and hospice care.
- **Medicare Part "B" Medical Insurance:** Includes coverage for doctor's services and outpatient care as well as some preventive services to maintain your health or prevent certain illnesses from getting worse.
- **Medicare Part "C" Medicare Advantage Plans:** An alternative to the "classic" Medicare program. Under Medicare Advantage, health care is provided by private companies approved by Medicare. These plans include Part A and Part B and usually provide other coverage, including prescription drugs.

[1] Source: Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group. Total Personal Health-Care Per-Capita Spending by Gender and Age Group, Calendar years 2006, 2008, 2010, 2012, 2014, in level dollars

Health Care Planning In Retirement

- **Medicare Part "D" Prescription Drug Coverage:** Helps cover the cost of prescription medications.

Medicare Supplement Insurance (Medigap) Policies

The original Medicare program will pay for many, but not all, health care services and supplies. Many retirees will also consider purchasing a "Medigap" policy, sold by private insurance companies, to help pay some of the health care costs (the "gaps") that the original Medicare program does not cover, including copayments, coinsurance, and deductibles.

Medigap policies provide standardized coverage (in most states identified by the letters A, B, C, D, F, G, K, L, M, and N)[1] and must follow federal and state laws designed to protect the consumer. Each standardized Medigap policy must provide the same basic coverage; cost is frequently the only difference between the same Medigap policy sold by different insurance companies. In some states, another type of Medigap policy, called Medicare SELECT, may be available. Medicare SELECT policies typically require you to use specific hospitals or doctors.

Planning For Incapacity

Retirement health care planning must also consider "incapacity." Major health problems such as a stroke, a heart attack, the onset of Alzheimer's disease or other forms of dementia, or simply becoming weak and frail from advancing age can result in your no longer being able to care for yourself or manage your own affairs. There are two key issues to consider:

- **Paying for "custodial" care:** Medicare and other types of health care insurance are designed to cover "acute" medical conditions. They do not pay for costs associated with "custodial" or "maintenance" care, such as might be needed by an individual whose health problems require nursing home care. With median U.S. nursing home costs for a semi-private room in 2019 of $247 per day ($90,155 per year),[2] the cost of such custodial care for even a short period of time can be enormous.

  Rather than pay these costs "out-of-pocket," many individuals purchase a Long-Term Care (LTC) insurance policy. For individuals without LTC insurance coverage, the jointly-run, federal-state Medicaid program may be able to pay for custodial care, once personal assets are exhausted.

[1] In Massachusetts, Minnesota, and Wisconsin, Medigap policies are standardized in a different way.

[2] See the Genworth Cost of Care Survey 2019, page 2.

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Health Care Planning In Retirement

- **Managing personal affairs:** If an individual is no longer able to manage his or her personal affairs, someone else will need to step in and take over. In planning for this possibility, three key documents should be considered:
  - **Durable power of attorney:** A written document by which one person (the principal) empowers another person (the agent or attorney-in-fact) to act in his or her behalf; often used for management of financial affairs.
  - **Living Will:** Also known as a "Directive to Physicians", this document provides guidance as to the type of medical treatment to be provided (or withheld) and the general circumstances under which the directive applies.
  - **Durable power of attorney for health care:** Many states have laws allowing a person to appoint someone to make health care decisions for them if they become unable to do so themselves.

Seek Professional Guidance

Planning for health care and incapacity in retirement involves answering a number of complex questions. The guidance of trained professionals in insurance, medical benefits, as well as the counsel of an estate planning attorney, can be invaluable in designing and implementing an effective health care plan.

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Long-Term Care

Long-term care (LTC) is the term used to describe a variety of services in the area of health, personal care, and social needs of persons who are chronically disabled, ill or infirm. Depending on the needs of the individual, long-term care may include services such as nursing home care, assisted living, home health care, or adult day care.

Who Needs Long-Term Care?

The need for long-term care is generally defined by an individual's inability to perform the normal activities of daily living (ADL) such as bathing, dressing, eating, toileting, continence, and moving around. Conditions such as AIDS, spinal cord or head injuries, stroke, mental illness, Alzheimer's disease or other forms of dementia, or physical weakness and frailty due to advancing age can all result in the need for long-term care.

While the need for long-term care can occur at any age, older individuals are the typical recipients of such care.

Individuals with Disabilities, by Age[1]

Age Range	No Disability	With a Disability
5-17 Years	94%	6%
18-34 Years	94%	6%
35-64 Years	88%	12%
65-74 Years	76%	24%
75 Years and over	52%	48%

What Is The Cost of Long-Term Care?

Apart from the unpaid services of family and friends, long-term care is expensive. The following table lists national average costs (regional costs can vary widely) for typical long-term care services. One federal government study found that the "average length of time since admission for all current nursing home residents was 835 days."[2]

[1] Source: U.S. Census Bureau, 2018 American Community Survey 1-Year Estimates, Sex by Age by Disability Status for the Civilian noninstitutionalized population, male and female, Table B18101.

[2] The National Nursing Home Survey: 2004 Overview. U.S. Department of Health and Human Services, Centers for Disease Control and Prevention, National Center for Health Statistics.

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Long-Term Care

Service	2019[1]
Assisted living facility	$4,051 per month ($48,612 per year)
Nursing home (Private room)	$280 per day ($102,200 per year)
Nursing home (Semi-private room)	$247 per day ($90,155 per year)
Home health aide	$23 per hour
Homemaker/companion	$22.50 per hour

Paying for Long-Term Care – Personal Resources

Much long-term care is paid for from personal resources:

- Out-of-Pocket: Expenses paid from personal savings and investments.
- Reverse Mortgage: Certain homeowners may qualify for a reverse mortgage, allowing them to tap the equity in the home while retaining ownership.
- Accelerated Death Benefits: Certain life insurance policies provide for "accelerated death benefits" (also known as a living benefit) if the insured becomes terminally or chronically ill.
- Private Health Insurance: Some private health insurance policies cover a limited period of at-home or nursing home care, usually related to a covered illness or injury.
- Long-Term Care Insurance: Private insurance designed to pay for long-term care services, at home or in an institution, either skilled or unskilled. Benefits will vary from policy to policy.

Paying for Long-Term Care – Government Resources

Long-term care that is paid for by government comes from two primary sources:

- Medicare: Medicare is a health insurance program operated by the federal government. Benefits are available to qualifying individuals age 65 and older, certain disabled individuals under age 65, and those suffering from end-stage renal disease. A limited amount of nursing home care is available under Medicare Part A, Hospital

[1] Source: Genworth 2019 Cost of Care Survey, page 2.

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Long-Term Care

Insurance. An unlimited amount of home health care is also available, if made under a physician's treatment plan.

- Medicaid: Medicaid is a welfare program funded by both federal and state governments, designed to provide health care for the truly impoverished. Eligibility for benefits under Medicaid is typically based on an individual's income and assets; eligibility rules vary by state.

In the past, some individuals have attempted to artificially qualify themselves for Medicaid by gifting or otherwise disposing of assets for less than fair market value. Sometimes known as "Medicaid spend-down", this strategy has been the subject of legislation such as the Omnibus Budget Reconciliation Act of 1993 (OBRA '93). Among other restrictions, OBRA '93 provided that gifts of assets within 36 months (60 months for certain trusts) before applying for Medicaid could delay benefit eligibility.

The Deficit Reduction Act of 2005 (DRA) further tightened the requirements to qualify for Medicaid by extending the "look-back" period for all gifts from 36 to 60 months. Under this law, the beginning of the ineligibility (or penalty) period was generally changed to the later of: (1) the date of the gift; or, (2) the date the individual would otherwise have qualified to receive Medicaid benefits. This legislation also clarified certain "spousal impoverishment" rules, while making it more difficult to use certain types of annuities as a means of transferring assets for less than fair market value.

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The Impact of Disability

While most Americans insure their lives and physical possessions such as their homes, cars, etc., many overlook the need to protect their most valuable asset – the ability to earn an income.

How likely is it that someone will become disabled? The table below, developed using data collected by the federal government, shows the number of working-age Americans who have a disability that affects their daily lives.

Individuals with Disabilities by Age[1]

Age Range	No Disability	With a Disability
5-17 Years	95%	5%
18-34 Years	94%	6%
35-64 Years	87%	13%
65-74 Years	75%	25%
75 Years and over	51%	49%

Income Down, Expenses Up

The graph below illustrates the problem typically faced by an individual who becomes disabled for an extended period of time – income decreases while expenses increase.

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[1] Source: U.S. Census Bureau, 2019 American Community Survey 1-Year Estimates, Sex-by-Age-by Disability Status for the civilian non-institutionalized population, male and female.

The Need for Estate Planning

At a person's demise there are certain typical problems which, if not planned for, create a burden on those who are left behind.

Proper estate planning can eliminate or reduce these problems.

Financial Burdens

- Estate settlement costs are too high: These costs consist primarily of probate fees and death taxes.
    - Probate fees: These are generally paid to the executor of the estate and the attorney who assists with the probate.
    - Death taxes: Estates that exceed certain amounts may be subject to both state and federal death taxes.
- Estate assets are improperly arranged:
    - Liquidity: There are not enough liquid (cash type) assets to pay estate settlement costs.
    - Cash flow: There is not enough income to care for loved ones left behind, e.g., spouse and minor children.

Transfer of Assets

- Estate assets may be subject to probate delays and expense.
- Assets transferred to minors may be in cumbersome guardianship accounts until they attain age 18 (or 21 in some states) and are then distributed outright to the children. A court supervised guardianship may be required.
- Additional death taxes may be paid because there was no pre-death planning.
- Without planning, estate assets may not pass to the intended heirs.

Care of Minors

- Guardians: Parents can nominate a guardian for their minor children in a will.
- Asset management: If the wrong persons are chosen to manage the assets left for the minors, the assets may be lost or unnecessarily reduced.

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Recommendations

After reviewing your situation, these are the next steps that will be needed to pursue your goals.

This page can be used as a free form, formatted way for you to outline critical next steps for a client . Use it as an opportunity to mention specific product paths that the client may consider following.

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