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# 21st century retirement

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*in this issue:*



## Assessing Your Retirement Resources

How resourceful can you be during your retirement? Determining *where* your retirement money will come from is an integral part of planning for retirement. Most people draw on three main sources of income: **Social Security**, **employer-sponsored plans**, and **personal retirement savings**. Each offers important resources that can help you fund the lifestyle you seek in retirement.

### Social Security

Social Security offers a retirement benefit to workers and their spouses. You can start receiving benefits as early as age 62 (considered early retirement) or wait until you reach the **full retirement age** of 65 to 67 (depending upon your year of birth). The benefits you receive are based on the income you have earned over the course of your life, subject to a maximum amount. You can calculate how much you can expect to receive by visiting the Social Security Administration (SSA) website at www.ssa.gov.

Social Security benefits will most likely fall short of meeting all of your retirement needs. The maximum benefit for a person who retires in 2016 at full retirement age is $2,639 per month; the benefit for a nonworking spouse is considerably less. For most people, Social Security provides only a base level of income. Therefore, you may require a retirement plan that includes additional sources of income.

### Employer-Sponsored Plans

Employer-sponsored plans are a staple of retirement income for many individuals. Many employers offer benefit packages that include retirement savings options, such as defined benefit plans, 401(k) plans, 403(b) plans (for nonprofit organizations), and Savings Incentive Match Plans for Employees (SIMPLEs). Here's how the plans work:

- With a **defined benefit plan** (also called a traditional pension), retirement benefits are generally based on a variety of factors, including salary, length of service, and a benefit formula that averages the employee's earnings over a prescribed period of years. In some instances, you, as an employee, may make additional contributions. To receive benefits, you generally must be employed for a certain number of years and reach the normal retirement age, typically age 65. When you retire, you may have options as to *how* and *when* you collect your benefits, such as in monthly payments or in one lump sum.

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# Baby Boomers Lack Confidence in Their Retirement Readiness

Less than one-quarter of baby boomers say they are confident they are ready for retirement, and just over one-half report having any retirement savings at all, according to the results of a survey conducted by the Insured Retirement Institute (IRI).

The survey of 800 Americans aged 53 to 69, conducted February 9-11, 2016, found that just 24% of respondents are confident they will have enough savings to last throughout their retirement years. Researchers pointed out that this is the lowest level in the six years the IRI has been conducting this survey: in 2011, for example, 37% of the boomers polled expressed confidence that they had saved enough for retirement.

Overall, the results indicated that the baby boomers surveyed have very low levels of confidence in their financial readiness for retirement: just 22% said they believe they are doing a good job in preparing for retirement, only 27% said they are confident that their savings will be sufficient to cover health care costs in retirement, and just 16% said they are confident they can cover the cost of long-term care.

Of the baby boomers surveyed, 55% reported having retirement savings, and of those who indicated that they have savings, 42% said they have saved less than $100,000, 29% said they have saved between $100,000 and $250,000, and another 29% indicated they have saved more than $250,000.

The survey also showed that the respondents who reported that they lack confidence in their retirement security expressed some common regrets, with 68% saying they wish they had saved more, and 67% saying they wish they started saving earlier. By contrast, just 27% said they regret not having maximized their employer plan benefits.

The findings further indicated that significant shares of baby boomers are delaying retirement: 30% of respondents said they had postponed their plans to retire in the past year, and 59% said they now plan to retire at age 65 or older. Researchers observed that while just 17% of the baby boomers surveyed in 2011 said they plan to retire at age 70 or older, this figure had risen to 26% in the most recent survey.

When asked what they would do if they exhausted their financial resources in retirement, 71% of respondents said they would try to cut back to rely only on Social Security, 54% said they would try to return to work, 22% said they would rely on charity, and 19% said they would seek help from their children or other family members.

The findings also revealed that baby boomers are losing confidence that they will be able to leave an inheritance to their children: just 46% of respondents in the 2016 survey said they believe it is important to leave money to heirs, down from a high of 67% in 2013.

In addition, the survey found that significant shares of baby boomers are currently facing financial difficulties: 30% reported that have stopped contributing to retirement accounts, 30% said they have found it more difficult to pay their mortgage or rent, and 16% said they have taken premature withdrawals from their retirement accounts.

The survey also showed, however, that the boomers who have consulted financial professionals are more confident on average: although only 27% said they work with a financial professional, 80% of this group indicated that feel better prepared for retirement as a result, and 78% of this group reported that have at least $100,000 saved for retirement.

## assessing your retirement resources

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- A **401(k) plan**, offered by many private employers, provides you with the opportunity to contribute part of your salary, with restrictions, into a retirement account. Your employer may match your contributions, up to a predetermined percentage and subject to a maximum. For example, if your employer matches your contributions by 50%, for every dollar you put into the fund, your employer will add $.50. In 2016, you can contribute up to $18,000, and those age 50 and over can contribute an additional $6,000. Your contributions are pretax, and any potential earnings are tax deferred, so payment of taxes will not commence until you begin taking distributions. If you withdraw money from your 401(k) before age 59½, you will incur a 10% Federal income tax penalty, except under certain qualifying circumstances (such as death or disability).
- A **403(b)** plan is a 401(k)-type plan designed for employees of certain educational and nonprofit organizations. Your contributions are pretax, and potential earnings grow tax deferred. The contribution limit in 2016 is $18,000, with catch-up contributions of up to $6,000 allowed for those age 50 and older. At retirement, you pay ordinary income tax on your distributions.
- The **Roth 401(k)**, which is available through sponsoring employers, incorporates elements of both traditional 401(k) plans and Roth IRAs, a type of personal retirement savings plan. Your contributions are made with after-tax dollars, but potential earnings grow tax free and distributions are tax free, provided you are at least age 59½ and have owned the account for five years. You may contribute a maximum of $18,000 per year ($24,000 for those age 50 and older); that limit includes any contributions to a traditional 401(k) account. Matching contributions made by your employer must be invested in the traditional side of the 401(k) account, not the Roth. Under the Small Business Jobs Act of 2010, participants in traditional 401(k) plans are now permitted to roll over funds into Roth accounts within their plans, if available. Any eligible funds transferred to Roth 401(k) accounts are taxed in the year of conversion. Some 403(b) plans may also offer a Roth option.
- **SIMPLEs** are used by small businesses with 100 or fewer employees. A SIMPLE plan allows you to contribute up to $12,500 to a SIMPLE IRA or SIMPLE 401(k) in 2016. If you are age 50 or older, you may contribute an additional $3,000. Employer contributions, which are mandatory, can be in the form of either a 2% contribution to all eligible participants or a matching contribution that is generally 100% of the first 3% of compensation. Your contributions are pretax, and you defer payment of taxes until you begin taking withdrawals.

Because retirement savings options often differ from one employer to another, it is important for you to understand the specifics of *your* company's benefit package. Contact your employer's benefit coordinator for more information.

### *Personal Retirement Savings*

Personal retirement savings may be the key to achieving your financial goals. Common complements to Social Security and employer-sponsored plans include the following:

- **Traditional IRAs** allow you to set money aside in a tax-deferred account. Depending on your income and whether or not you participate in an employer-sponsored retirement plan, you may be eligible to take an income tax deduction. In 2016, the maximum contribution for all IRAs (traditional, Roth, or both) is $5,500, and those age 50 and older can contribute an additional $1,000. Even if you don't qualify for a deduction, your contributions have the potential to grow tax deferred; you pay taxes on withdrawals and avoid tax penalties if you are at least age 59½.
- **Roth IRAs** permit earnings to grow tax free and distributions to be taken tax free, provided you have owned the account for five years and are at least age 59½. However, your initial contributions are not tax deductible. The contribution limits are the same as with traditional IRAs, including the guidelines for "catch-up" contributions, in the aggregate. In 2016, only taxpayers whose adjusted gross income (AGI) falls below certain levels ($117,000 a year for single filers, and $184,000 for joint filers) are eligible to contribute after-tax dollars to a Roth IRA.

With a sound assessment of your income resources, you can begin to plan for the retirement you want. The choices you make *today* can influence your future financial independence. Starting now puts time on your side.

# Protect Your Estate with an Irrevocable Life Insurance Trust

Many estate planning practitioners view the **irrevocable life insurance trust (ILIT)** as a flexible and useful tool that can provide a number of benefits to their clients. Because the question of where the ILIT fits into the overall estate planning process can be somewhat confusing, a closer look at its potential advantages may prove helpful.

## Inheritance Comes with a Price

Typically, the amount of estate planning necessary is dictated by the size of your assets. For instance, if you are married, a properly drafted and executed **will** and **inter vivos (living) trust** for you and your spouse—coupled with proper asset ownership—may only ensure that the first $10.9 million in 2016 (annually adjusted for inflation) of your estate passes to heirs free of Federal estate taxes. In 2016, the top tax rate is 40%.

Thus, estates exceeding $10.9 million for married individuals in 2016 (or $5.45 million per individual) are subject to Federal estate taxes. For this reason, the ILIT has become a popular technique to help fund the payment of estate taxes and to help ensure that assets are passed to your family in full.

## Opportunity Knocks

The proceeds of a life insurance policy that is purchased and owned by an ILIT, if correctly structured and administered, are not included in your estate. Instead, they may be payable to the ILIT's **beneficiaries** (often children or grandchildren) without incurring estate tax consequences.

An ILIT can purchase a life insurance policy on your (the donor's) life, with the policy premiums funded by annual gifts you make to the ILIT. Consequently, your **annual gift tax exclusion** ($14,000 annually per donee and $28,000 for gifts made by husband and wife) can be used to maximize gifts to the ILIT.

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

## Preparing for Your Future

Estate planning is an *ongoing* process that requires a personal commitment to help ensure your desired intentions are fulfilled. An ILIT can be an integral part of your overall plan. Be sure to consult your estate planning team, including your insurance, legal, and tax professionals, about your unique circumstances. ■



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