TOP RETIREMENT PLANNING ISSUES

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As we plan for the next year, it's important to look back at the trends and changing legislation to assist in making decisions going forward. In this report are the five areas to keep a close eye on as you plan for your future.

1. Low Interest Rates

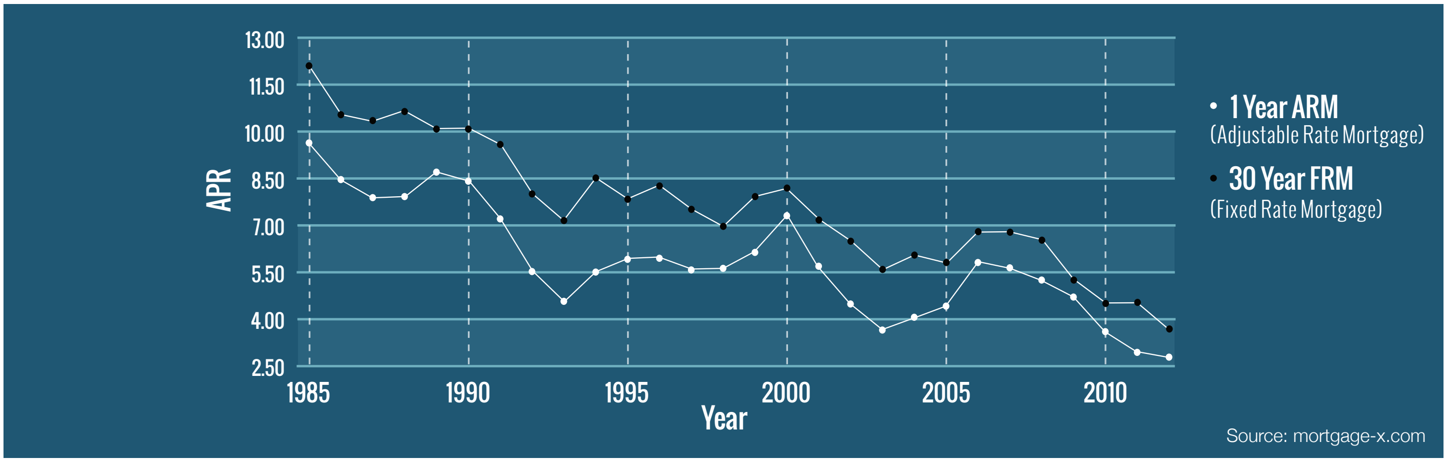
In July 2013, the benchmark interest rate in the United States remained at its record low of .25 percent – where it had settled since December of 2008. Comparatively, the benchmark interest rate hit an all-time high of 20 percent in May of 1981, and has averaged 6.14 percent between 1971 and 2013.[1]

While low interest rates are usually good for borrowers, they can be devastating for retirees. When interest rates are low, fixed investments earn less. One third of workers surveyed in a May 2012 survey from Gallup and Wells Fargo[2] said that low rates would compel would be retir-ees to work longer and delay retirement, and 45 percent had a fear of outliving their savings.

Interest rates will most likely begin rising but growth is expected to be slow. For example, ten-year Treasurys, which approached 3 percent in August 2013, may grow to 4 or 4.35 percent in 2014 according to an August 30, 2013 article in DailyFinance.com.[3]

As a retiree, a solid income planning strategy is essential. Don't be tempted to make a fear-based decision to move your safe money into riskier investments to close the income gap. Instead, seek guidance from a trusted financial professional who can show you options for safer income-producing products such as annuities with guaranteed* growth.

**Guarantees are based on the claims-paying ability of the issuing company.*



Source: mortgage-x.com

2. Booming Stock Market

The United States Stock Market (Dow Jones) reached an all-time high of 15,658 index points in August 2013. To put that into perspective, the stock market averaged 2,338 index points from 1912 until 2013.[4]

Stay the course. Generally it's not a good idea to veer away from your underlying investment strategy. For example, don't sell all your stocks or dump everything into the stock market just because the market is at an all-time high.

Follow the rule of 100. Subtract your age from 100 to get the approximate percentage of your portfolio that you can prudently hold in risk-based investments. The remaining part of the portfolio should be allocated to fixed or other safer instruments. For example, a 45-year-old should have no more than roughly 55 percent of his/her assets in risk-based investments, with the remaining 45 percent invested in accounts designed not to lose money. As you get older, your portfolio should become more and more conservative.

Diversify. In other words, don't put all your eggs in one basket. Your goal should be to invest using a variety of vehicles rather than putting all your money in one place. Then, when one investment plunges, the others can potentially balance out your overall performance. Keep in mind, diversification does not ensure a profit or protect against loss.

Rebalance. Due to the strong performance of the stock market over the past year it's a strong possibility that your portfolio has gotten out of balance. Considering the rule of 100, you may be taking more risk than you should be. By systematically rebalancing your portfolio – you improve your ability to stay on track with your retirement goals and buffer yourself against stock market fluctuations.

3. Ever-Present Tax Implications

While there's no big news to report on the tax front, however retirees are well-advised to always prepare for the possibility of future tax increases. Some tax savings provisions (that have been extended in the past due to slow economic growth) may be allowed to expire as the economic outlook improves.[5] Below are a few tips to keep in mind as you decide how and when to take retirement income:

- Be cognizant of your Required Minimum Distributions (RMDs). When you reach age 701/2, the Internal Revenue Service requires you to start taking annual distributions or face penalties. Taking RMDs creates additional tax liability each year, so make sure to discuss the impact of RMDs with a financial professional, as well as options to reduce the tax impact.

- Evaluate the best time to take income. Many people assume that the best time to pay taxes on tax-deferred investments is as late as possible, but that's not always true. In some cases, you may incur less tax burden by converting a Qualified Account, or IRA to a Roth IRA before your RMDs take effect and while tax rates are still low. Before converting any money however, be sure to consider how it will impact your tax bracket.

4. Health Care Reform

When you're living on a fixed income, out-of-pocket health care costs can take a big bite out of your budget. It's important to know what to expect.

Under the Affordable Care Act (ACA), seniors receive free preventative care such an annual wellness visits, colonoscopies, and cancer screenings,. Another big benefit is that the ACA closed the Medicare prescription drug plan coverage gap. These changes should decrease out-of-pocket costs for seniors.

On the other side of the coin, premiums for high income seniors may increase over time. Part B and Part D Medicare premiums are based on income. Individuals with incomes greater than $85,000 and couples with income greater than $170,000 may be required to pay higher premiums.[6] While Guaranteed Medicare Services will not be cut due to ACA, some private plans may actually cut benefit options and levels.[7] If you have a private Medicare Advantage Plan, stay informed on pending plan changes.


It's your retirement...
handle it with care.

5. Estate Taxes

Passed in 2012, the American Taxpayer Relief Act permanently set the estate tax exemption at the 2011 level of $5 million indexed for inflation, with the taxable portion of the estate subject to a 40 percent tax.[8] However, "permanent" may not actually mean forever. Just three months later, President Obama proposed reducing the estate tax exemption level to $3.5 million and increasing the tax to 45 percent on the taxable estate, effective 2018.[9]

Granted, not many people have estates in excess of $3.5 million so whether the exemption is set at $5 million or $3.5 million is irrelevant for most. However, there are many steps that everyone can take to proactively prepare for estate taxation.

- First, make sure your beneficiary designation forms for life insurance policies and other assets are up to date and accurate. These forms can override your will, so it's important to keep them up to date.
- Make sure you have a will or a living trust to designate guardians, and the distribution of your assets.
- If you have an IRA, contact an estate planning attorney who is experienced with trusts and a financial professional who understands IRA distribution rules BEFORE putting your IRA into a trust. IRA distribution planning is a very specialized practice, and not all legal, tax, and financial professionals may fully understand all the factors involved. Improper handling of your IRA can result in costly tax consequences for your survivors. Questions to ask include:

- What are the individual tax rates compared to the trust tax rates and how will placing your IRA in a trust impact taxation for your beneficiaries?
- If your IRA is in a trust, who should be the beneficiary – your trust or your loved ones?
- Has your beneficiary designation form been approved by the account custodian?
- Is your trust irrevocable?
- Is your trust a pass-through (or see-through) trust so that distributions can be based on the age of the beneficiary?
- Is the trust agreement valid under your state law?
- Should you name individual beneficiaries so they have more distribution options and the ability to stretch out the inheritance by using required minimum distribution tables?

Conclusion

Retirement planning has never been easy. And with so many aspects of the economy and legislature in motion, it's even more challenging today. By staying on top of the five areas above, you can better prepare for the future.

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1 TradingEconomics.com: http://www.tradingeconomics.com/united-states/interest-rate
2 WellsFargo.com: https://www.wellsfargo.com/press/2012/20120606_USInvestorOptimismSags
3 DailyFinance.com: http://www.dailyfinance.com/2013/08/30/prepare-higher-interest-rates-mortgages-saving-investing-home-buying/
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