



THINGS *to know*
about **PLANNING YOUR** RETIREMENT INCOME



EXPLORE PRODUCTS THAT CAN
PROVIDE GUARANTEED*
INCOME

* Guaranteed by the financial strength and claims-paying ability of the issuing company, and may be subject to restrictions, limitations or early withdrawal fees. Annuities are not FDIC insured.

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EXECUTIVE SUMMARY

Historically, the United States had three strong legs of the retirement stool: a well-funded Social Security system, substantial corporate pensions with retiree health benefits and ideally, a strong personal savings rate. However, the booming population coming of retirement age has changed all that. Social Security was never intended to provide all of the income needed in retirement, and many employers have replaced pensions with self-directed defined contribution plans.

State and local government pension plans are typically underfunded, cutting back on benefits and raising retirement ages.¹ In the private sector, only 42 percent of workers age 25-64 have any pension coverage at their current job.² As for retiree health plans, the percentage of large employers that sponsor them has dropped from 46 percent in 1991 to just 8 percent today.³

Instead of defined benefit plans, it is more common to have an employer-sponsored, defined-contribution plan such as a 401(k), 403(b), or 457 plan. These plans are an excellent way to save, but we are only now witnessing the first wave of "401(k) retirees" who will live off of this type of savings. Defined contribution plans will be watched to determine if they meet the retirement savings needs for anticipated longer life spans.

There are many variables involved in creating an income strategy for today's retirees. What follows are 10 things to consider when working with a financial professional to develop a retirement income strategy.

¹ Congressional Budget Office, *The Underfunding of State and Local Pension Plans*, May 2011; <http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/120xx/doc12084/05-04-pensions.pdf>.

² Center for Retirement Research at Boston College, "The Pension Coverage Problem in the Private Sector," September 2012, Number 12-16; http://crr.bc.edu/wp-content/uploads/2012/09/IB_12-16.pdf.

³ U.S. Chamber of Commerce, "Private Retirement Benefits in the 21st Century: A Path Forward," 2012.



#1: PLAN FOR A LONG LIFE

In 1935, when the Social Security Act was passed, 65-year old beneficiaries received payouts for an average of 12 to 15 years.⁴ Now, however, a couple aged 65 has a 70 percent chance that at least one of them will live to age 85 – which can mean providing for 20 years or more of income once you qualify for Social Security benefits.⁵ Furthermore, Social Security is not intended to be a retiree's sole form of income.

Average Life Expectancies Through the Ages

Those longevity statistics are quoted as averages for both men and women, but keep in mind that men weigh the average down since women in modern times outlive men by about five to six years. Not only are women more likely to live longer than men, but they appear to be a factor in helping men live longer, too. On average, married men tend to live many years longer than single men.⁶



⁴ Life Expectancy for Social Security, <http://www.socialsecurity.gov/history/lifeexpect.html>; retrieved June 2012.

⁵ Society of Actuaries, "2011 Risks and Process of Retirement Survey Report," 2012.

⁶ Scientific American, "Why Women Live Longer," October 21, 2010. Scientific American, "Why Women Live Longer," October 21, 2010.



#2: HEALTH CARE EXPENSES WILL INCREASE

Just because we are living longer doesn't mean we're going to be healthy throughout our longer lives. In fact, the longer you live, the more likely you'll experience chronic health conditions such as diabetes, arthritis and/or heart disease.⁷

While some credit goes to more active, health-conscious, smoke-free lifestyles, it may be safe to say that today's retirees owe more to prescription drugs and medical advances for lengthening their lifespan. And as we all know, health care can be expensive. In fact, Fidelity Investments found in its 2012 Retiree Health Care Costs Estimate study that a 65-year-old couple retiring in 2012 with Medicare coverage will need about \$240,000 to pay for medical expenses throughout retirement, excluding nursing-home care.⁸ While a retiring couple may need that sum for medical expenses, costs can be offset by health insurance plans, and medical expenses will likely be distributed across many decades.

In 2011, 74 percent of American employees had not considered a plan to cover health care expenses in retirement.⁹ This can be a key component of your overall retirement strategy, as health care costs can represent a significant portion of a retiree's expenses. When creating a retirement income strategy, it's important to consider that a couple's retirement assets may be diminished by the health care costs for the spouse who dies first. While you may end up spending less on things like travel and entertainment than when you first retire, be advised that medical and long-term care in your later years may require more income.

One of the 10 things you should consider is that medical expenses can add additional costs over the length of your retirement.¹⁰

⁷ http://www.cdc.gov/nchs/fastats/older_americans.htm

⁸ Fidelity Investments, Retiree Health Care Costs Estimate, 2012.

⁹ Sun Life Financial Unretirement Survey; "Flying Blind: How Working Americans View Healthcare Costs in Retirement," pg. 3; May 24, 2011.

¹⁰ Bureau of Labor Statistics; Focus on Prices and Spending, February 2012, Volume 2, Number 15.



#3: YOU MAY NEED A HOUSING PLAN (OR TWO)

As you probably know, home values across the entire country have dropped in the last few years – in some areas significantly. According to the Case/Shiller Index, which tracks U.S. housing values, home prices have traditionally followed a slow but steady incline demonstrating that home ownership can still be a reasonable long term investment. The upward spike we experienced from 2005 to 2007 was quite the anomaly, and not one we're likely to see again in the Baby Boomer lifespan.¹¹

It's not likely we'll return to the overvalued housing bubble of 2006 anytime soon.¹² Even though it feels like we've experienced a tremendous drop in value, consider what your home was worth back around 2003-2004. At the national level, we've not only returned to those levels but are, in fact, near what they would be, had prices simply continued their slow, steady climb without the spike.¹²

Fluctuations in the housing market could impact your retirement income strategy. Your home may not provide the backup retirement income you have anticipated. Or, perhaps you've considered relocation to a Senior community, but have delayed that move to sell your home when prices recover.

Looking ahead, the rate of house appreciation is likely to revert closer to the long-term norms (pre-2006) of .75 to 1 percent per year over the rate of inflation – not double digit annual increases.¹³ In today's environment, taking on a modest mortgage and paying it off before retirement is the goal. At that time, and based on individual situations, you may have the option to downsize your residence or use the equity to help fund your retirement income via a reverse mortgage. You can also stay in your home until you pass away and let its equity serve as an inheritance for your heirs.

¹¹ Fiserv Case-Shiller; Fiserv Case-Shiller Home Price Insights: For Many U.S. Markets, the Return to Peak Home Prices Will Be a Long, Slow Road," April 8, 2010.

¹² Standardandpoors.com; "2012 Home Prices Off to a Rocky Start According to the S&P/Case-Shiller Home Price Indices," March 27, 2012.

¹³ Urban Land Institute, "Housing in America: The Next Decade," 2010.



Housing away from home

Plenty of elderly individuals who live independently in their own home may do so indefinitely. But realistically, you should be prepared with a back-up plan. If you've ever been laid up for a significant amount of time due to injury or illness, you probably know what it's like to need assistance. As we age, it can take even longer to recover and even acute health conditions may require additional home health assistance for recovery.

In-home professional health services offer a variety of fee-based options provided by home health aides, in-home physical or occupational therapists, nutritionists, and nurses, but these services can be quite expensive. The cost of home care combine with paying for other living expenses, such as a mortgage or rent, utilities, groceries and transportation can be expensive and is important to consider.

Senior living communities run the gamut of care from independent living to assisted living, rehabilitative care, memory care, and complete 24-hour skilled nursing long-term care. The cost of facilities varies and should be considered when planning a retirement strategy. Consider the possibility that one spouse may have medical issues requiring full-time nursing care, while the other spouse continues to live in the family home. A split housing scenario may impact retirement savings.

It's good to have a contingency plan in place. Some options are a long-term care policy or an annuity that offers long-term care benefits, in the basic contract or through the purchase of optional riders. These can help provide confidence in your retirement income strategy.

Relying on family for assisted living

Today, 78 percent of retirees who need long-term care depend exclusively on family and friends.³⁴ Family caregivers can take on additional responsibility when caring for elderly parents, which can lead to issues for the caregivers themselves.

According to a National Alliance for Caregiving study released in 2009, the average caregiver is often a woman in her forties who spends more than 20 hours a week providing care for a senior family member in addition to working a full or part-time job. According to the MetLife Study of Working Caregivers and Employer Health Costs (2010), caregivers are at higher risk for health conditions.³⁵ The Evercare Survey of the Economic Downturn and Its Impact on Family Caregiving (2009) revealed that long-term care giving can have financial consequences for the caregiver.³⁶ The circumstances for every individual and family caregiver vary.

³⁴National Alliance for Caregiving in collaboration with AARP, "Caregiving in the United States," November 2009.

³⁵National Alliance for Caregiving and MetLife Mature Market Institute, "MetLife Study of Working Caregivers and Employer Health Costs," February 2010.

³⁶National Alliance for Caregiving and Evercare, "Evercare Survey of the Economic Downturn and Its Impact on Family Caregiving," 2009.



#4: PLAN FOR LONG-TERM CARE ASSISTANCE

With a longer life comes the greater likelihood of needing assisted living or long-term care. According to the Genworth 2011 Cost of Care Survey, median costs can range from \$39,600 to \$81,030 per year depending on the type of care needed.¹⁷ For a couple, this kind of care can be costly and is important to consider when developing a long-term care strategy.

Medicare pays for acute care, not long-term residency. Medicaid pays for long-term care but requires that you "spend down" your assets before coverage kicks in. Individuals who delay buying long-term coverage may be considered high risk and may be denied coverage or charged higher premiums. A policy that pays out \$150 a day for three years would cost an average preferred health 55-year-old couple \$2,702 in annual premiums. That same policy would cost a typical 65-year-old couple \$3,615.¹⁸

One of the ten things you should consider is that the sooner you start thinking, researching, preparing and structuring your long-term care strategy, the more time and choices you'll likely have to meet your personal needs and desires.

¹⁷ Genworth, 2012 Cost of Care Survey, 2012.

¹⁸ American Association for Long-Term Care; 2012 Long-Term Care Insurance Price Index, June 26, 2012.



#5: CONSIDER THE POTENTIAL IMPACT OF INFLATION

Inflation can be experienced a little differently when you retire because you'll likely spend money proportionately on different things. For retirees, the tendency is to spend money on things that experience a higher rate of inflation. For instance, health care, which has an inflation rate of about 8 percent – currently two to three times greater than the overall inflation rate.

As you can see in the accompanying graph, older Americans devote a substantially larger share of their total budgets to medical care and housing, which is why these categories receive a higher weighting in the Consumer Price Index-Elderly (CPI-E). The CPI-E represents households whose reference person or spouse is 62 years of age or older and like the other indices, weights measured categories according to their importance in the spending patterns of the respective population. According to the U.S. Department of Labor Statistics, older Americans devote a substantially larger share of their total budgets to medical care and shelter than the general population.¹⁹

Even without the higher inflation rate on certain expenses, you still have to account for the fact that many things cost more over time when planning for retirement income in the future. No matter how much income you plan on having when you retire, you'll want to consider the amount of retirement income you'll need and the potential impact of inflation.

The Rule of 72

The Rule of 72 is a method to determine the time for money and buying power to halve. It is intended to demonstrate mathematical principles only and should not be regarded as an absolute.

The Rule of 72 illustrates why you may need more income every year you're retired. Just divide the number 72 by the inflation rate to estimate how quickly the prices you're paying now will double. For example, if you need \$50,000 to live on today and estimate a 3 percent average annual inflation rate going forward, in 24 years (72 divided by 3 = 24) your income could need to double to \$100,000 a year to maintain your current lifestyle.

When you stop working, you may need to live on less income and should consider the impact of inflation in your retirement strategy.

Relative importance of expenditure categories in Consumer Price Indexes for three population groups, December 2011



Bureau of Labor Statistics, U.S. Department of Labor, The Editor's Desk, Consumer Price Index for the elderly on the Internet at http://www.bls.gov/opub/ted/2012/ted_20120302.htm (visited January 29, 2013).

¹⁹ FundQuest, "A Process-Centered Approach to Retirement Income," June 2010.



#6: RECONSIDER YOUR GOALS

You can't control what the markets will do, or when they will do it. The occurrence of a market downturn, such as in the first few years of retirement, can have an impact on how long retirement assets may last. The distribution of retirement income differs from accumulation because, once retired, you may no longer have the timeline to help you recover from the impact of a down market. Consider your long-term retirement goals and what you wish to accomplish during this time.

Combine growth opportunity with reliable income sources

Traditionally, as pre-retirees approached retirement they would transition assets from growth-seeking investments to more conservative fixed-income vehicles. This may have worked fine back when retirement wasn't expected to last as long. However, given today's longer life spans, you can use your lifetime to work for you in the markets. As such, you may need to pair higher-risk investments with sources of reliable income. Reliable income may include Social Security and pension benefits, government bond yields, and insurance products, such as life insurance and annuities. Retirees may need to utilize a variety of financial vehicles, such as investments, annuities and traditional savings vehicles to meet the challenges of a longer life and the potential impacts of inflation.

Sequence of returns

No matter how strong or how long a bull market runs, one fatal correction can have a resounding effect on retirement savings. More importantly, however, isn't whether your assets will be affected by a market down, but rather when. The "sequence of returns" in your portfolio refers to the order in which your investment returns occur. If your portfolio experiences a downturn while you are still accumulating assets, there may be time for it to recover any losses.

While you may devise a plan to retire at a certain age, you can't plan on how the market will be performing at that time. If your investments experience a decline when you're ready to begin taking income from them, it could affect how much income you can withdraw over the rest of your life.

One of the 10 things you should consider is that, according to a 2012 Special Report on Retirement Income Planning by the Journal of Financial Planning, retirees who did not need to make significant changes in the last year to their retirement status or lifestyle utilized a systematic withdrawal strategy from a combination of interest, dividends, and/or portfolio holdings.²¹

²⁰ Mercer, "Guide to Social Security, 39th Edition"; January 2011.

²¹ Journal of Financial Planning's Special Report 2012: Retirement Income Planning, "Finding Success in Retirement Income Planning," December 2012; http://www.fpane.org/docs/assets/440EA706-DC3F-B39D-7209A76CA6D656CA/SpecialSection_King-Schulaka.pdf.

Sample Benefits Based on Retirement Age²⁰

Starting Age	Monthly Benefit
62	\$1,125
63	\$1,200
64	\$1,300
65	\$1,400
66	\$1,500
67	\$1,620
68	\$1,740
69	\$1,860
70	\$1,980

Continuing to work in order to delay drawing Social Security benefits also allows you more time to contribute to qualified retirement plans, potentially accruing higher gains than you might have otherwise.



Are you eligible for benefits based on your former spouse's work history???

Divorce Facts

For a divorced spouse to receive benefits based on the ex's work history, the couple must have been married for 10 years or longer and both must be age 62 or older. The death of a spouse increases the survivor's benefit.

If a former spouse is eligible for a benefit but has not yet applied for it, the ex may still apply for the spousal benefit as long as they have been divorced for at least two years. Widows and widowers are entitled to the higher earner's full retirement benefit and may begin receiving benefits at age 60.

Once a divorced spouse remarries, he or she is no longer eligible to receive a benefit based on the first spouse's work history – unless the subsequent marriage ends in death, divorce or annulment. A surviving spouse may claim a reduced benefit on one working record and then switch to the other.

A former spouse may claim the highest benefit based on the work history of any number of ex-spouses as long as each marriage lasted at least 10 years. The higher earner can increase the survivor's benefit by waiting to receive any benefits until age 70.

A qualified divorced spouse may receive the same benefit as the current spouse. The current spousal benefit is not reduced as a result of this.

#7: SOCIAL SECURITY BENEFITS

Perhaps the most impactful decision you can make regarding Social Security benefits is at what age to begin drawing them. You may be able to apply for Social Security benefits as early as age 62. However, doing so will permanently reduce the monthly payout you are eligible to receive. If you wait until full retirement age, you'll be eligible for the maximum amount of payout available based on your lifelong earnings. Delaying benefits as long as you can will increase the monthly amount you are eligible to receive.

While drawing benefits early reduces the monthly payout you receive, you may receive benefits over a longer timespan, so your lifetime total may be the same. You should consider a number of factors – such as your income needs, medical history, etc. – to help determine when to begin drawing benefits.

Spousal Benefits

Once you reach full retirement age, you may claim either your own benefit or a derivative (up to 50 percent) of your spouse's benefit – whichever is higher. When it comes to Social Security benefits for spouses, the determining factors are the length of marriage, work history and the age of both spouses. Each spouse needs 10 years of work history (40 credits) to qualify for individual benefits, which will be based on an average of the 35 years of highest earnings.

Are you eligible for benefits based on your former spouse's work history?

When applying for Social Security Benefits, each spouse will automatically receive the highest amount for which they are eligible. For instance, a wife may qualify for a higher benefit based on her husband's work history over her own.

To receive benefits based on a spouse's work history:

- Both spouses must be at least age 62
- They need to have been married for at least one year
- The spouse with the stronger work history must apply for Social Security retirement benefits in order for the other spouse to collect (although he or she may then choose to delay collecting benefits until later in order to qualify for a higher benefit)

If the higher earning spouse begins drawing benefits after attaining full retirement age, the other spouse may receive a spousal benefit of up to 50% of the higher earner's benefit. If the higher earner starts drawing early, his benefit and the spousal benefit will be reduced accordingly.

This brochure is designed to provide general information on the subjects covered. Pursuant to IRS Circular 230, it is not, however, intended to provide specific legal or tax advice and cannot be used to avoid tax penalties, or to promote, market, or recommend any tax plan arrangement. Please note that we do not give legal or tax advice.

²² Mercer, "Guide to Social Security, 39th Edition"; January 2011.



Are you eligible for benefits based on your former spouse's work history?²³

Widow(er) Facts

Widows and widowers are entitled to 100 percent of the higher earner's retirement benefit if the decedent spouse had reached full retirement age before death.

Widow is entitled to 100 percent of the decedent spouse's benefit once she reaches full retirement age.

Widow may receive 71.5 percent of the decedent spouse's benefit once she reaches age 60.

A widow under age 61 may receive 75 percent of the decedent spouse's benefit if she cares for an eligible child who is under age 16 or disabled.

A surviving spouse may claim a reduced benefit on one working record and then switch to the other.

The higher earner can increase the survivor's benefit by waiting to receive benefits until age 70.

#8: TAXES IN RETIREMENT

The American Taxpayer Relief Act of 2012 made permanent the previous Bush tax cuts for all but the top one percent of households. Individuals who earn more than \$400,000 and couples who make more than \$450,000 will experience a tax rate increase from 35 to 39.6 percent going forward in 2013. Furthermore, the tax on capital gains and dividends was increased to 20 percent from 15 percent for the same income thresholds.

On top of those increases, capital gains will be subject to an additional 3.8 percent Medicare tax imposed by the Health Care and Education Reconciliation Act of 2010 for single taxpayers with incomes over \$200,000 (\$250,000 for married taxpayers).

Social Security

Social Security benefits are income-tax free for the majority of beneficiaries. However, a portion of your benefits may be taxed if your combined income falls within established thresholds. Combined income includes your adjusted gross income, nontaxable interest and half of your Social Security benefits. Based on Internal Revenue Service (IRS) rules, if you file an individual federal tax return and your combined income is ²⁴ :

- between \$25,000 and \$34,000, up to 50 percent of your benefits may be taxable.
- more than \$34,000, up to 85 percent of your benefits may be taxable.

If you file a joint return and you and your spouse have a combined income that is:

- between \$32,000 and \$44,000, up to 50 percent of your benefits may be taxable.
- more than \$44,000, up to 85 percent of your benefits may be taxable.

If you are married and file a separate tax return, you will likely pay taxes on your benefits.

Annuities

Annuity income from a non-qualified contract is considered a combination of return of principal and earnings, and only the earnings are taxed as ordinary income. If the annuity is purchased with pre-tax dollars in a qualified contract such as a 401(k) or traditional IRA, the entire payout is subject to income taxes since the contributions were never taxed. Note that any withdrawals taken before age 59 1/2 may be subject to an additional 10 percent federal penalty tax.

You may wish to reconsider your current retirement savings strategy and utilize some of those funds to purchase an annuity, which can provide guaranteed income. Guarantees are backed by the claims-paying ability of the issuing insurance company.

²³ Mercer, 2013 Guide to Social Security, 41th Edition, November 2012.

²⁴ Social Security Administration, "Benefits Planner: Income Taxes And Your Social Security Benefits," October 15, 2012; <http://www.socialsecurity.gov/planners/taxes.htm>.



#9: DISTRIBUTION STRATEGIES

Saving for retirement may seem like a challenge in and of itself. It's like standing at the foot of a tall mountain and beginning the slow, steady climb towards your retirement savings goal. However, once you reach the top of that mountain and are ready to retire, you face a different task: figuring out how to take the savings nest egg you've accumulated and dole it out over what may be a very long retirement. If you're not prepared, you could face challenges such as not having enough income during your descent.

This is what an income distribution strategy is all about: how to descend the mountain as steadily, carefully and securely as possible. How long your retirement income will last is significantly impacted by whether you stay within your pre-determined budget and not withdraw more income than planned for each year.

One of the common ways of automating your income distribution is called the "spend-down" strategy. With this strategy, you set up a systematic withdrawal plan (SWP) to pay you a certain percentage of your account balance at specific intervals. However, if your portfolio balance loses significant value or the percentage you withdraw each year is too high, you can run out of money.

To help develop an effective distribution strategy, first identify the retirement income sources you have available to help pay for your lifestyle in retirement. On one hand, you're likely have some reliable income sources such as Social Security benefits, a pension, an annuity or income from a job. You may also have retirement assets designated to fund your retirement, such as a 401(k) plan, IRA, savings, CDs, mutual funds and brokerage accounts.

One strategy is to position your reliable income sources to pay for your basic needs, so you know they'll be covered. Next, use your other retirement assets to supplement any gap in the income you absolutely need, and then pay for the things you want to enhance your lifestyle.

One of the 10 things you should consider is that there's a difference between saving for retirement and figuring out the best way to utilize your savings once you retire.



Have you answered these questions?

- What is your "personal rate of return" – the rate of return, based on the income you need, that you may have to earn to avoid running short of money during retirement?
- When should you begin Social Security benefits?
- Can your current income and savings last throughout retirement?
- What impact can taxes and inflation have on your income needs?
- If you pass away, will your spouse have enough income?
- How can a down market impact your income strategy?

#10: THE ROLE OF INSURANCE PRODUCTS IN RETIREMENT

The transition to individuals having more responsibility of their retirement savings isn't the only thing that has changed in the 21st century. The closer you get to retirement and once you are in retirement, it is prudent to start limiting your downside exposure in exchange for upside potential as you transition to the income distribution phase. Consider allocating your assets not just among securities and fixed income instruments, but also among different types of products, such as annuities and life insurance.

By utilizing a variety of financial vehicles, such as life insurance or annuities, you can create a strategy that meets your needs and goals for retirement. By incorporating insurance products into your overall strategy, you may not realize the same type of growth associated with investments, however, you may also feel confident knowing you aren't as exposed to market risks.

When evaluating whether to use insurance products as part of your retirement income strategy, the following are some of the considerations should be taken into account:

- Your tolerance for market risk
- Your age
- A ballpark estimate of your life expectancy, based on your health and family history
- The amount you expect to spend in retirement for basic needs and discretionary purchases
- Desired value of inheritance you wish to leave behind
- The risk and return characteristics of various investments and insurance products
- Liquidity

It is certainly worth considering strategies that place assets in insurance vehicles such as annuities. Annuities use a lump sum (or series of premium payments) to provide a supplemental source of retirement income. They are subject to surrender charges and holding periods, which vary by carrier. By purchasing an annuity, you can generate a reliable income stream.

Retirement-income strategies and products you may wish to consider can include a systematic withdrawal plan from growth investments, lifetime income annuities, life insurance, long term care insurance, and a variable annuity with a guaranteed income rider.



IRAs

Starting in 2012, more people were able to make contributions to IRA plans than in previous years. The income limit for eligible tax deductions for a traditional IRA increased to \$59,000 for single filers or head of household and to \$95,000 for those married and filing jointly. As for the Roth IRA, single filers with adjusted gross income up to \$112,000 and joint filers with income up to \$178,000 can make a full contribution. The maximum combined contribution to a traditional and/or Roth IRA is \$5,500 a year (\$6,500 for age 50-plus).²⁵

If you waiver back and forth between using a traditional or Roth IRA, consider using them in concert with a tax-efficient IRA strategy. For example, contribute to a traditional IRA to defer more income when taxes are higher, and then convert the assets to a Roth (a taxable event) when taxes are lower so you position them for tax-free distributions in retirement. You may repeat this process indefinitely. *(This is not intended to provide tax, legal or accounting advice. Please see professionals in these areas to see how this strategy applies to your situation.)*

Annuity

An annuity is a contract you purchase from an insurance company. For the premium you pay, you receive certain fixed and/or variable interest crediting options that can compound tax-deferred until withdrawn. When you're ready to receive income, an annuity offers a variety of guaranteed payout options through a process known as "annuitization."

The array of annuity contracts on the market today include immediate, fixed, variable and indexed annuities. The choices allow you to match very specific, individual needs with a suitable product. Different contracts and carriers offer a range of credit methods, payout terms, and death benefit choices. Many also offer a variety of riders available for an additional fee, such as addressing inflation or guaranteed minimum income (backed by the claims-paying ability of the issuing company). An annuity purchase can be strategically positioned within your overall portfolio for a specific personal objective, such as income for your spouse should you die first, or an inheritance for your children. Coverage is available for two people within one contract, so you don't have to purchase a separate contract for your spouse. All guaranteed benefits are backed by the financial strength and claims-paying ability of the issuing insurance company.

²⁵ IRS.gov, "IRA Announces 2013 Pension Plan Limitations," October 18, 2012; <http://www.irs.gov/uac/2013-Pension-Plan-Limitations>.



Annuity with a guaranteed lifetime withdrawal benefit

Today's annuities offer a variety of income options to ensure that your initial purchase offers income that can last the rest of your life. A guaranteed lifetime withdrawal benefit (GLWB) is available through a rider you can purchase with an annuity that allows for minimum withdrawals without having to annuitize the contract. Product features and availability will vary by state.

Fixed indexed annuity

The fixed indexed annuity (FIA) combines a guaranteed minimum interest rate* or interest crediting based on the market index to which it is tied. The principal in the annuity is not exposed to market risk, however, as FIAs do not directly participate in the market. At the end of each contract year, the insurance company measures the growth of the annuity's linked index (such as the S&P 500®) over the previous 12 months and then credits your contract value with that interest, subject to any caps, spreads and/or participation rates. Note that it is possible to receive zero interest crediting in any given year. All guarantees are backed by the financial strength and claims-paying ability of the issuing company.

**Guaranteed minimum interest rate typically begins at 87.5 percent of premium paid, with 1 percent-3 percent interest annually.*

Municipal Bonds

Tax-exempt municipal bonds are an excellent tax-advantaged investment, especially for those in high income-tax brackets. Interest earned on municipal bonds is exempt from federal income taxes and, in most states, from state and local taxes for residents of the issuing state. The main advantage of municipal bond investing is the after-tax yield compared to that of a taxable security. The yield advantage further improves with the higher the tax bracket and the longer the maturity.

Laddered Bonds

Laddering your bond portfolio is a way to stagger your assets for income or reinvestment at varying intervals. When you spread your investments across a range of short-term, medium-term, and long-term bonds, they will mature at different times, allowing you ongoing access to funds as well as the opportunity to reassess interest rates to determine if reinvestment is your best option for income at that given time.



Dividend paying stocks

High dividend-paying stocks are particularly attractive because they are more tax-efficient than bond interest. Dividends paid out by stocks are taxed at the lower long-term capital gains and qualified dividend income rate – currently 15 percent at the federal level. Bond interest, on the other hand, is taxed at your ordinary income tax rate – currently as high as 35 percent.

Life Insurance

Whole life insurance provides a component for accumulating assets within the contract, called the cash value. The cash account can offer include tax-deferred accumulation over the long-term and the potential for dividends. These advantages are guaranteed by the financial strength and claims-paying ability of the issuing company.

A universal life insurance policy (flexible premium whole life) allows you to vary the amount and timing of when you pay premiums and may also permit you to change the amount of the subsequent death benefit. A variable universal life policy includes an investment feature, which allows the death benefit and cash value of the policy to fluctuate based on the investment performance of a separate account fund which offers a variety of investment options.

Long-term care insurance

Long-term care insurance (LTCI) may offer flexibility and a viable choice for Baby Boomers still enjoying good health and relative wealth. LTCI is designed to help people pay for short- or long-term care and housing costs at an assisted living facility, nursing home or even in your own home – by far the preference of most retirees. Typically, an optimal time to buy a policy at lower rates is around age 55, but even at a later age it may still be worth considering purchasing and LTCI policy for the benefits it can provide.

²⁹ Ibbotson Associates, "Estimating Expected Return and Standard Deviation of New York Life Insurance Company General Account for Investors", 2009.



Have you answered these questions?

- Which assets will you hold in tax-deferred vehicles versus taxable vehicles?
- From which vehicles should income be withdrawn from first?
- When will you start taking Social Security?
- Should you roll over a 401(k) to an IRA?
- Who should be your designated beneficiary(ies) for IRA or qualified plans?
- Would a Roth IRA conversion be appropriate?
- What tax decisions should you address when leaving an employer?

CONCLUSION

While the "Greatest Generation" experienced the burgeoning of government and corporate retirement income and health plans, Baby Boomers and future generations are seeing these benefits being reduced or eliminated altogether. The Baby Boomer generation will continue to take on more responsibility for providing income for their own essential living expenses in retirement, like housing, food and health care.

Recent market corrections and economic challenges have caused some Americans to rethink their retirement income strategy. In fact, you may need to reposition your assets to accommodate a longer life with fewer assets than you previously thought. This is a good time to think about your true priorities and align your assets to support your personal goals (not just your financial aspirations).

The bulk of the responsibility for providing retirement income has shifted to individuals, and the new products and strategies designed to help you prepare for retirement can be complex. Our advice is to work with advisors you trust to help ensure that your financial strategy is designed to meet your long-term financial goals.

By contacting us you may be offered insurance products to purchase.

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10 THINGS TO KNOW ABOUT PLANNING YOUR

RETIREMENT INCOME

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