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JOE'S FINANCIAL LETTER

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Retirement Derailers

In a February 2013 survey of 1,000 employed and retired Americans aged 50–70 with $100,000 or more in investable assets, 90% of respondents said they had experienced a "retirement derailer" — a specific circumstance that seriously impacted their retirement plans or reduced their retirement savings (Source: Ameriprise Financial, February 2013). Approximately 37% of respondents had experienced five or more such circumstances. The top 10 derailers cited by survey respondents were:

- Supporting one or more grown children or grandchildren
- Receiving pension benefits that are lower than expected or not getting an anticipated pension at all
- Losing some retirement savings because of unsuccessful investments
- Taking Social Security benefits before reaching full retirement age
- Experiencing a job loss
- Not getting an anticipated inheritance
- Having to spend a lot of money on home repairs
- Taking care of an aging parent or other family member
- Paying for significant medical bills that aren't covered by insurance
- Using retirement savings to pay bills

To make sure your retirement isn't derailed, consider these tips:

1. Start saving now. When asked what they would have done differently, 57% of survey respondents said they wished they would have started saving earlier. Indeed, because of the power of

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When Can You Retire?

When can you retire? It depends — on how old you are; how much you have saved; the extent to which you'll rely on Social Security, a pension, or tax-advantaged retirement accounts; how your investments perform; the kind of lifestyle you want in retirement; and how long you'll live.

Factors to Consider When Setting a Target Retirement Age

1. What kind of lifestyle do you want in retirement? Given the same monthly savings rate, there is a tradeoff between when you can retire and the kind of lifestyle you can have once you do. For example, if you're currently 50 years old, earn $50,000 per year, and plan to live to age 90, for about the same monthly savings amount, you can retire at age 65 with 50% of your preretirement income or at age 70 with 100% of your preretirement income (Source: Kiplinger Retirement Savings Calculator). There's no right or wrong answer here, it's simply a tradeoff you'll have to make.

2. What does Social Security consider to be your full retirement age? The government will allow you to start receiving Social Security benefits at age 62, but those benefits will be less than what you'd receive if you waited until your full retirement age. For example, for an individual born in 1960 or later who retires at age 62 instead of age 67 (full retirement age), monthly benefits will be reduced by 30%. For individuals born before 1960, full retirement age ranges from 65 to 66 and 10 months, and the reduction in benefits for retiring at age 62 ranges from 20% to 29.17%.

Of course, if you're not counting on Social Security for retirement income, then you can retire whenever you want and wait until your full retirement age to start taking Social Security benefits.

3. What do your pension plan and other retirement plans

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Retirement Derailers

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compounding, starting to save for retirement just a few years earlier can make a huge difference in the end.

For example, a 30-year-old puts $400 per month into a tax-deferred retirement plan (like a 401(k) plan), which generates $1,015 per month in retirement income for 30 years beginning at age 65. For the 35 years that the individual is saving (from age 30 to 65), she will have contributed $168,000 to the account. A 45-year-old makes the same amount in total contributions ($168,000 at a rate of $700 per month) to the same retirement account. Even though she has contributed the same dollar amount, because her savings compounded for 15 fewer years, she has about 20% less during retirement (Source: Ameriprise Retirement Calculator).

2. Save now to spend later. About 33% of survey respondents said that if they had spent less on discretionary expenses like dining out and vacations during their working years, they would be better prepared for retirement. This is where it's critical to make a budget for current expenditures, a retirement budget, and a plan for how to make retirement work. That plan may involve trimming current expenditures, scaling back retirement expectations, or both.

3. Prepare a retirement plan. Unless you plan to work until the day you die, a retirement plan should be an integral part of your overall investment plan — and no matter what your circumstances, an investment plan is a very important way to decrease the likelihood that your life plans will be derailed by unexpected circumstances that inevitably arise.

Think seriously about things for which you might want to spend money before or during retirement — like helping out grown children or grandchildren — and then build that into your retirement plan. Obviously, unexpected circumstances do arise; but if you can anticipate that your children or grandchildren might need help and you are willing to help them, put that into your investment plan.

4. Review the implications of taking Social Security benefits before reaching full retirement age. For people who were near retirement age when the Great Recession hit and lost their jobs, taking Social Security at age 62 probably seemed like a far better idea than trying to get a new job at that age. But it's important to understand that while the government will allow you to start taking benefits at age 62, it will penalize you for it: for an individual born in 1960 or later who retires at age 62 instead of age 67 (full retirement age), monthly benefits will be reduced by 30%.

5. Have a candid conversation with your parents or other family members whom you might be caring for in old age. Talk about how they'll want to be cared for and the means they have to pay for such care. Urge them to consider long-term-care insurance, which can greatly ease the financial burden of paying for their care in a world in which the average cost for an assisted-living facility is nearly $42,000 a year and is more than $90,000 a year for a nursing home (Source: *The Wall Street Journal*, October 12, 2012).

If you have already been impacted by one or more of the derailers listed above — or any other circumstance that has impacted your retirement plans, here are five ways you can get back on track:

1. Take advantage of catch-up provisions. If you are 50 or older, you can contribute more tax-deferred income to a 401(k) or IRA (these are called catch-up contributions). In 2013, you can contribute $5,500 more to a 401(k) or 403(b) and $1,000 more to an IRA.

2. See where you can trim expenses to save more. Boosting your savings to get back on track for retirement might be easier than you think: most of us spend more than we realize on discretionary things like meals out, clothing, travel, and other personal expenditures. Take a hard look at your budget and see where you can cut back — even $100 per month can make a difference in your retirement savings.

3. Evaluate your investment choices. Review your current asset allocation. Many individuals close to retirement pulled money out of the stock market during the financial crisis; and if you haven't since reassessed your asset allocation, you're probably missing out on significant investment opportunities as the equity market rebounds. That said, you want to ensure that your asset allocation is appropriate (not too heavy in equities) given your age and target retirement date.

4. Reevaluate your retirement lifestyle. Most financial advisors recommend that you be able to replace at least 70% of your preretirement income during retirement. So if you planned to spend 85% of your current income in retirement, you might be able to scale back and still retire comfortably.

5. Work longer. When Social Security was created in 1935, the average American 65-year-old man could expect to live to age 78 and the average American woman to 80. Today, the average American 65-year-old man can expect to live to 84 and the average American 65-year-old woman to 86 (Source: Social Security Administration, 2013). In that context, working five more years might not be such a sacrifice — and it can make a big difference in the retirement lifestyle that you can afford. For a 60-year-old who has a retirement account balance of $250,000 today and contributes $2,000 a year, pushing retirement back from age 65 to age 70 would yield an additional $158,410 in total savings (not counting Social Security) — adding $300 per month to the individual's retirement income.

No matter where you are on the path to retirement or whether you've been derailed or not, please call to discuss this in more detail.

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When Can You Retire?

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consider to be full retirement age? Like Social Security, most pension plans have a certain minimum age at which they will begin paying benefits (at a reduced rate) and a certain age at which you become eligible to start receiving full benefits. Similarly, tax-advantaged retirement plans, like 401(k) plans and IRAs, penalize distributions (except in certain circumstances) before age 59½.

Important to note: While most people focus on the earliest age at which they can retire, it's also important to understand when you may be *required* to start taking retirement benefits or distributions from retirement accounts. 401(k)s and 403(b)s require minimum distributions beginning at age 70½ (unless you're still working, in most cases), as do traditional IRAs.

If you would like to retire at age 62 but the math just isn't working out, you might consider partial retirement. By continuing to generate income even after you've left the workplace, you can retire earlier than if you're not generating any income at all.

Ways to Partially Retire

- **Work part-time.** Working part-time, either at your current job or another one, is one way to continue generating income while still having more time to pursue the retirement activities you've been looking forward to. Some people enjoy working a few hours every day, a couple of days a week, or even just a few months out of the year, depending on what the job is.
- **Consult.** You've likely spent many decades honing your skills in a particular job or industry. And while some employers might be wary of hiring older workers full time, they're often eager to tap the expertise of older workers on a contract basis. So consulting can be a good way to continue earning income while also freeing up time to golf, play with the grandchildren, and whatever else you've been putting off for retirement.
- **Sell your wares.** If you plan to do craft-related activities in retirement anyway, why not consider selling your wares? Online craft sites make selling homemade items relatively easy. If you join a local craft-making group, you could find the activity both financially and socially rewarding.

Please call if you'd like to discuss this in more detail.

Help Beneficiaries Avoid IRA Mistakes

While annual contributions to IRAs are still relatively modest, the ability to roll over 401(k) balances to an IRA can result in significant IRA balances. In addition to retirement planning vehicles, IRAs are thus becoming estate-planning tools. If you are in that situation, help your beneficiaries avoid these common IRA mistakes:

- **Using the IRA balance too quickly.** After an IRA is inherited, a traditional deductible IRA still retains its tax-deferred growth and a Roth IRA retains its tax-free growth. Your beneficiaries' goal should be to extend this growth for as long as possible. If the IRA has a designated beneficiary, which includes individuals and certain trusts, the balance can be paid out over the beneficiary's life expectancy. Spouses have additional options that can stretch payments even longer. Your beneficiaries can also elect to take the entire balance immediately, paying any income taxes due.
- **Not splitting the IRA when there are multiple beneficiaries.** When there are multiple beneficiaries, it is typically best to split the IRA into separate accounts by December 31 of the year following the original owner's death. If the account is not split, distributions must be taken by all beneficiaries over the oldest beneficiary's life expectancy. By splitting the IRA into separate accounts, each beneficiary can take distributions over his/her own life expectancy. This is especially important for a surviving spouse, who can only roll over the IRA to his/her own account if he/she is the sole beneficiary. With the rollover IRA, the surviving spouse can name his/her own beneficiary, thus extending the IRA's life, and can defer distributions until age 70½. When other than an individual or qualifying trust is named as one of the beneficiaries, the IRA must be distributed within five years if the owner dies before required distributions begin or over the owner's life expectancy if the owner dies after required distributions begin.
- **Rolling the balance over to a spouse's IRA too quickly.** Once a spouse rolls over the balance to his/her own IRA, some planning opportunities are eliminated. Spouses under age 59½ can take withdrawals from the original IRA without paying the 10% federal income tax penalty. Spouses who are older than the original owner can delay distributions by retaining the original IRA. Also, the spouse may want to disclaim a portion of the IRA, which must be done within nine months of the original owner's death. If the account is rolled over, that disclaimer can't be made. Thus, it is typically best for the surviving spouse to determine his/her financial needs first.
- **Not properly establishing the inherited IRA.** An inherited IRA must be retitled to include the decedent's name, the words "individual retirement account," and the beneficiary's name. The IRA cannot simply remain in the decedent's name. The beneficiaries should also designate beneficiaries for their own IRAs.

Business Data

Indicator	Month-end Aug-13	Sep-13	Oct-13	Dec-12	Oct-12
Prime rate	3.25	3.25	3.25	3.25	3.25
3-month T-bill yield	0.04	0.01	0.05	0.09	0.13
10-year T-note yield	2.86	2.79	2.66	1.80	1.79
20-year T-bond yield	3.61	3.53	3.41	2.56	2.55
Dow Jones Corp.	3.17	3.09	2.98	2.70	2.66
GDP (adj. annual rate)#	+0.40	+1.10	+2.50	+0.40	+1.30

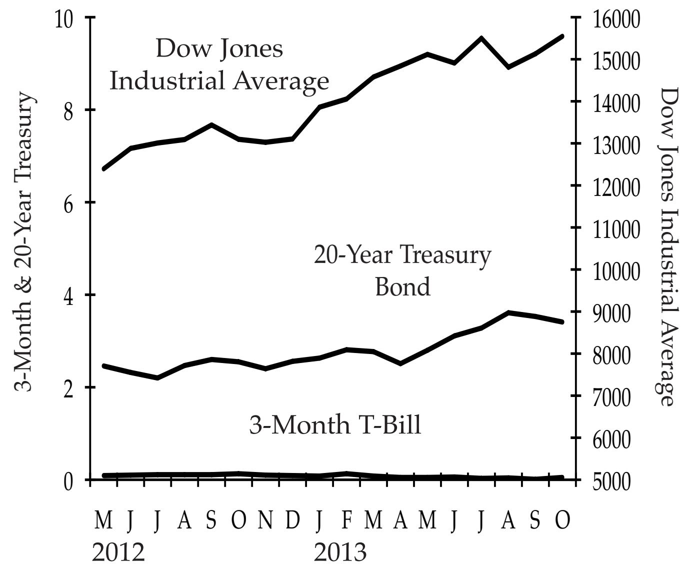
Indicator	Month-end Aug-13	Sep-13	Oct-13	% Change YTD	12 Mon.
Dow Jones Industrials	14810.31	15129.67	15545.75	18.6%	11.8%
Standard & Poor's 500	1632.97	1681.55	1756.54	23.2%	24.4%
Nasdaq Composite	3589.87	3771.48	3919.71	29.8%	31.7%
Gold	1394.75	1326.50	1324.00	-20.3%	-23.0%
Unemployment rate*	7.40	7.30	7.20	-7.7%	-7.7%
Consumer price index@	233.50	233.60	233.90	1.6%	1.1%
Index of leading ind.@	95.40	95.90	96.60	3.4%	0.8%

— 4th, 1st, 2nd quarter @ — Jun, Jul, Aug * — Jul, Aug, Sep

Sources: *Barron's, Wall Street Journal* Past performance is not a guarantee of future results.

18-Month Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield

May 2012 to October 2013



News and Announcements

Contributing to Spousal IRAs

A spousal individual retirement account (IRA) allows a nonworking spouse to contribute to an IRA, even though the spouse has little or no earned income. Here are the basics:

- To be eligible to contribute, the couple must be legally married at tax year-end and file taxes jointly. The couple's combined earned income must equal or exceed the combined IRA contribution.
- Contributions can be made to traditional IRAs as long as the owner is under age 70½, while there is no age limit for Roth IRAs.
- In 2013, the maximum contribution to an IRA is $5,500, with an additional $1,000 catch-up contribution for individuals age 50 and over.
- For traditional IRAs, if the working spouse is covered by a qualified retirement plan but the nonworking spouse is not, the contribution for the nonworking spouse is phased out once modified adjusted gross income (MAGI) is between $178,000 and $188,000 in 2013 and totally phased out once income exceeds $188,000. If you both have earned income equal to at least the maximum IRA contribution amount and are both covered by a qualified retirement plan, your contribution is phased out at joint MAGI between $95,000 and $115,000 in 2013. If neither of you is covered by a qualified plan, both of you can make a deductible contribution regardless of your MAGI.
- For Roth IRAs, eligibility is phased out for MAGI levels between $178,000 and $188,000 in 2013. It doesn't matter whether your spouse is covered by a qualified retirement plan at work.

Contributing to a spouse's IRA may be as beneficial to the working spouse as to the nonworking spouse, since the assets are likely to be shared during retirement. Please call if you'd like to review whether you or your spouse is eligible to contribute to a spousal IRA. FR2013-0613-0131

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Joe Ciaramitaro provides a variety of financial services to his clients through the Raymond James & Associates, Inc. office in Birmingham, Michigan. Joe specializes in retirement plans and serving the needs of high-net-worth business owners and individuals. Joe, a Certified Financial Planner™ professional, is well versed in the areas of tax-advantaged investing, retirement planning, personal financial planning, pension plan review and analysis, and professional money management.

Joe has been in the financial services industry for over 25 years, and moved his Financial Planning practice to Raymond James in 2003. Joe came into the financial services industry after obtaining a degree in accounting with an emphasis in Tax from Michigan State University. Joe is the youngest of nine children and is married (Elaine), has one daughter (Jacqueline), and two sons (Charlie and Robert).

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