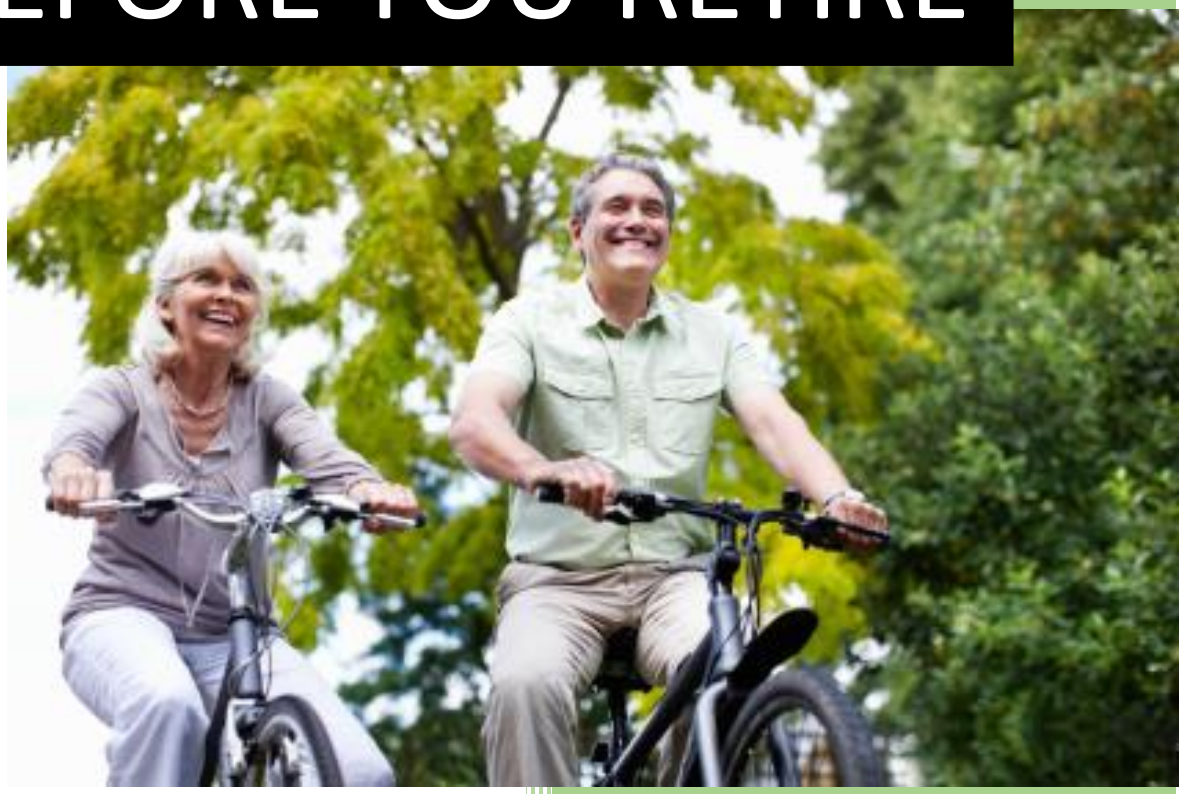
PLANNING
for
PROSPERITY

20 ANSWERS YOU NEED BEFORE YOU RETIRE



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As an average of 12,000 baby boomers turn 65 each day, more and more of these workers are making the decision to retire. In light of the fact that this decision triggers one of the most significant transitions people will face throughout their lives, this report has been authored to help answer some of the questions you have as you begin to plan for the transition into retirement. The decision to retire is something that takes careful consideration yet the retirement planning process is something that all too often does not receive the attention it should. Throughout the planning process you should receive definitive solutions to any and all questions you have about retirement such as your income picture, your retirement tax picture and strategies, the sustainability of your nest egg and how you assets will keep pace with inflation as your income loses purchasing power, just to name a few. This report is a compilation of the questions most frequently asked of us as advisors in an effort to provide you with the answers retirees need. In addition, we have added a number questions and answers that we often bring to light throughout the rigorous discovery and planning process we believe is necessary to undertake before you enjoy your first day of retirement. As you review the material below, make note of any additional questions that you believe apply to your specific financial picture and take the time to address these questions, vital to your retirement future, with a trusted financial advisor.

Retirement Income

1. How will I derive income in retirement?

Retirement income typically comes from 3 primary sources. The cornerstone of your retirement income is Social Security. This source should not be expected to provide you with a standalone retirement income stream however with careful planning and Social Security timing techniques this income source will be the cornerstone of your retirement income picture. The second source for some retirees is an employer sponsored defined benefit plan, commonly referred to as a pension. An increasing number of retirees are working for employers who do not have these plans so developing an alternative to this source is imperative. For those who do have a pension, careful consideration and examination of the options available to you is important in the shaping of your retirement income plan and your overall tax plan. The last source is an income stream deriving from your personal retirement savings and non-retirement investment portfolios. For those without a pension distributions from these assets will make up a greater portion of your retirement income stream.

2. How Can I maximize my Social Security?

Simply stated, Social Security has many more options available to you in addition to those stated on the Social Security statements you have received throughout your career. If you only count whole year elections, based on the available application types, there are 81 different options available to a married couple. Other topics to consider are age discrepancy between spouses, earnings records and how the survivor benefit of Social Security works. Before you make your Social Security election, it is imperative you have a Social Security timing report completed. This will allow you to consider all the options available and make a recommendation based on your specific retirement picture.

3. How do I accurately project for my retirement income?

The best practice for retirees is to have a retirement income plan completed specifically outlining retirement income year by year, the sources thereof and the timing of all income strategies. It is important to have this analysis done

prior to retiring as a neglected retirement income plan is responsible for a high incidence of increased tax liability for the retiree. One topic central to the income tax picture is the Required Minimum Distribution or RMD. This topic will be discussed in the retirement accounts section of this report in greater detail. A retirement income plan will help you make decisions focal to your income strategy based on fundamentals, not emotion. This is a liabilities driven analysis, which allows you to determine how you will meet your obligations through your entire retirement. The purpose is to give the retiree a piece of mind and a guide to navigate difficult economic climates.

4. How will my retirement income sources be taxed?

The common question retirees ask of advisors does not have a simple, one sentence answer. Retirement income is taxed differently depending on the source of the income. Let's look at the three primary sources discussed above. Distributions from employer sponsored pension plans are taxed as ordinary income rates. The taxation of Social Security benefits is not nearly as clear cut. The taxation of these benefits is varied for filers depending on their provisional income. Some folks will receive their Social Security benefit free of tax, some will have to pay tax at ordinary income rates on 50% of their benefit and others will have to pay ordinary income tax on 85% of their Social Security income. Social Security will never be taxes in totality, for every recipient 15% of your Social Security income will be tax free. Familiarize yourself with the concept of provisional income. We will discuss this topic and what goes into the provisional income calculation in the tax portion of this report. Last but certainly not least, distributions from qualified or retirement plans are taxed as ordinary income rates when the distribution is taken. ***IMPORTANT***, a common misconception is that if you perform a rollover from an employer sponsored plan to an IRA, you have to pay taxes. A rollover to an IRA is a tax-free transaction. The only caveat to the taxation of retirement plan distributions is any distribution taken from a Roth. All normal distributions from Roth accounts are tax free.

5. How much income can I take sustainably from my retirement portfolio?

Retirement income, unfortunately, can no longer rely on a simple rule. The 4% distribution rate rule that was commonly accepted as a sustainable practice has even been called into question as of late. With the volatility in

the markets we have experienced since the early 2000's and the global market meltdown affecting retirement assets across all asset classes, recent findings show a glaring deficiency in the 4% rule and its expected probability of success throughout your retirement. Recommendations on sustainable income generation have become much more of an individualized calculation based on a number of factors including other income sources, the level of assets you have amassed, your age and the life expectancies of you and your spouse.

Retirement Accounts

6. What should I have in my retirement accounts, what investments are recommended for retirees?

The investments within your retirement accounts should be coordinated specifically with each investors individual set of financial circumstances. The decision of what to invest in only comes after you have determined how much income you need, what your risk tolerance is, how much growth you need in your portfolio and what your liquidity needs are. Though this is a frequently asked question pre-retirees bring up in an initial meeting, recommendations for investments can only be made after a diligent discovery process and all the necessary planning has been done. According to the IRS publication of life expectancies the average 62 year old retiree will live 23.5 years so it is important that you realize that retirement is not the goal line but the start to the next portion of your financial life. Consequently, throughout your planning process you should earmark portions of your assets for short, interim and long term time horizons. The investments you include in each of these portions of your portfolio should be suitable for your specific risk tolerance. The shorter term assets you choose should be low risk assets and should provide stability of principal. Longer term assets have more time to absorb swings in the market and while having more risk should be targeting a return that consistently outpaces inflation.

7. What options are available to me for the money I have invested in my retirement plan?

Retirement plans that are sponsored by employers such as 401k, 403b, 457b and ESOPs, to name a few, give you a host of choices upon separation of service. This is a choice that you *do not* want to take lightly. Ensure that you

have informed yourself of all the possible options before you take any action. The options are as follows:
1. Leave it in your company plan.
2. Perform a rollover to an IRA paying no taxes and enjoying tax deferred growth with a greater selection of investment options.
3. Withdraw the account balance, pay taxes and then invest the funds in a non-retirement account.
4. Annuitize your balances and receive an income for life. While some of these options will only be attractive to people in various financial situations, these are the options available to you as you separate from service. Take the time to ask questions and understand the value of each of these options. Though executing a rollover to an IRA is often the most suitable option it is not always the best option. Be cognizant of your specific circumstances, fees charged, available investment options and any net unrealized appreciation you may have in your plan are three such factors your should examine before you determine which option is the best for you. This is one area we strongly recommend you discuss with an independent financial advisor.

8. Am I required to take money out of my retirement accounts?

From every retirement account, with the exception of Roth accounts, you must take a Required Minimum Distribution (RMD) by the first quarter of the year following the year you turn age 70 ½. These distributions will continue each year to follow. In the tax portion of this report we will discuss the hurdles RMD's pose to your income tax picture and some mitigation strategies.

9. How frequently should I review the beneficiary designations I have made for my retirement accounts?

Beneficiary designations should be reviewed on an annual basis. Since the IRS code allows for beneficiaries of IRA's to enact a stretch provision when meeting certain criteria, it is important that you keep your beneficiary designations up to date. In addition to the stretch provision, it is a good idea to keep your designations up to date due to the fact that if a named beneficiary has predeceased the owner, the asset will revert to the estate. This is a disadvantage on two fronts, first he beneficiary gives up all the preferred tax treatment and the asset could then be subject to estate tax if the value of the estate is over the allowable estate tax exemption.

Tax Planning

10. Will my taxes go down in retirement?

Conceptually, the introduction of qualified retirement plans was beneficial on all sides of the employee's tax picture. The theory was that you could fund a retirement account such as a 401k with pre-tax money, enjoy the power of tax-deferred growth and take distributions in retirement in a lower tax bracket, whereby saving on income taxes during your peak earning years *and* during the distribution stage. As tax rates have condensed and tax brackets have expanded, many retirees are finding that their retirement income picture leaves them in the same marginal tax rate that they were in when they separated from employment. As referenced above, a retirement income plan will help paint an accurate income tax picture. Once you have developed your need-based analysis, very careful planning should be given to tax-advantaged strategies. This starts by calculating your taxable retirement income and marginal tax rate. Once you have these numbers you can inform yourself of tax savings strategies applicable to your retirement plan.

11. Is there a method to safely and effectively reduce my annual income tax obligation during retirement?

Most investors should consider one or a combination of these commonly used tax advantaged investments or strategies:
1. IRA planning, conversion to Roth IRAs
2. Planning for RMDs; determine the result of these distributions on your overall income tax picture
3. Municipal bonds that pay tax-exempt interest
4. Provisional Income consideration, limit provisional income by using assets not included in the calculation
5. Annuities can offer tax-deferral of earnings and tax advantaged income
All investments have advantages and disadvantages; suitability of *any* of the Aforementioned investments or strategies is contingent on your overall financial plan and specific circumstances. You should speak with a financial professional and a professional tax advisor before making any changes.

12. What is Provisional Income and how does it affect my Social Security?

The rate at which your Social Security is taxed is determined by your provisional income. The provisional income calculation is; your AGI plus ½ of your Social Security benefit and any tax-exempt interest income you have received from assets such as municipal bonds. Dependent on your provisional income, your Social security will have ordinary income tax due on 0%, 50% or 85% of your benefit. *One important fact to consider is that Roth distributions are not included in the provisional income calculation.*

13. If I move my company plan to a rollover IRA does this trigger a tax obligation?

The simple answer is no. If you follow the proper process of rolling your company sponsored plan into a rollover IRA account you will not trigger a taxable event. Inform yourself of the steps you need to take to ensure the rollover a non-taxable event. If you accidentally take a distribution from your company sponsored plan in an attempt to execute a rollover, you can still prevent taxes being due on the distribution as long as you roll the money into an IRA within 60 days.

Insurance Planning

14. What if I choose to work past 65 years old, what do I have to do about Medicare?

Some of the most costly mistakes retirees make stem from Medicare elections and the timing thereof. Medicare part A is the major medical benefit that does not have an additional premium associated with it. This election is made at age 65. If you do not opt in to other portions of Medicare at 65, it is imperative that you attain documentation stating your employer sponsored coverage qualifies you for a special enrollment when you separate from service. If you do not file for Medicare properly, you could be stuck with higher premiums for a period of time or the rest of your life depending on the portion of Medicare coverage. In addition to the cost increase, you may be subject to pre-existing condition exclusions or denied coverage all together. Two pieces are of paramount importance when planning for Medicare and

continuing employment after 65. The first is to inform yourself of all of the Medicare parts, deadlines and enrollment availabilities. The second is to ask questions of your employer sponsored insurance plan as some will only continue coverage if you have elected coverage under Medicare parts A and B. This is a very complex decision making process. If you have Medicare questions, request the Medicare checklist from the show at 518.348.7772. The checklist is designed to help folks in all different scenarios prepare for the transition to Medicare.

15. Do I have any alternatives to the traditional Medicare Program administered by the Federal Government?

Medicare Advantage plans have been growing in popularity throughout the recent years. These plans are offered through private insurance carriers and are required to offer medical insurance that is equal to or better than the traditional Medicare plans. One important fact to remember is that Medicare Advantage plan eligibility is contingent on being enrolled in Medicare parts A and B. Though you are enrolled in the traditional plans, the private insurer is responsible for all your coverage. There are an increasing number of Medicare Advantage plans out there with a wide variety of coverages, some with prescription coverage some without. When making Medicare elections you should take some time to shop the various plans available and determine which will suit your specific need best. This is another topic we recommend discussing with a financial professional who is well versed in Medicare and the options within.

16. Do I need to continue or should I look at life insurance coverage in retirement?

Life insurance is another tool in the tool chest. Life insurance by design is simply a shift of risk from yourself to an insurance company. This transfer of risk has a cost associated with it. Though it is billed by some as an investment, life insurance should be used as a risk mitigation strategy. If you choose to continue or start life insurance coverage, it is important you are using the policy properly for the risk you are attempting to mitigate. One such risk clients look to remove is an estate tax liability for the next generation. Life insurance owned by a trust is one such method of having money to settle

any estate tax obligation without selling tangible property or investment holdings to generate the cash for taxes. One issue to be cognizant of when you shape your retirement insurance plan is the type of insurance you choose if you determine you need coverage. If you need permanent life insurance make sure you are purchasing insurance that is guaranteed, not a policy that may run out of money years down the road. The last choice you want to make later in life is between paying an enormous premium or canceling your coverage.

17. Do I need Long Term Care Insurance?

As advisors, this is a topic we are usually asked early in the planning process and our answer is generally the same each time. All of your financial planning, income planning, asset planning, and tax planning need to be completed before you have an accurate estimate of what is at stake. Only after we have a thorough understanding of your specific financial picture can an accurate recommendation be made on the suitability of Long Term Care Insurance. Some folks will find they do not have a high enough level of assets to insure and others will find they are candidates to self-insure against long term care costs. Take the time to complete the necessary planning and your need or lack thereof for Long Term Care Insurance will be clear.

Estate Planning

18. How do I start planning for my estate?

The first steps to planning for your estate and the efficient transfer of assets from one generation to the next is the development of a will and keeping your beneficiary designations up to date. The next step that is often taken simultaneously with the development of your will is the development of a trust or trusts. These vehicles assist you in the process of transferring your assets to the beneficiaries of your choosing outside of your taxable estate and the probate process. A process that is often time consuming and arduous in nature, you want to ensure as few of your assets as possible will be subject to probate. Beneficiary designations that are kept up to date, trusts that are carefully designed and funded and mindful planning with owner retained non-retirement accounts are a few techniques that will help minimize the size of the assets to be probated. Estate planning overall is a topic you should

discuss with a trusted financial advisor and an attorney specializing in estate planning.

19. Do I have enough money to develop an estate plan?

A great misnomer among retirees is that they don't have to develop an estate plan because their estate is under the maximum allowable estate value that can be transferred free of estate tax. This concept alone is patently incorrect for a host of reasons. First, the excludable amount of an estate that can pass from one generation to the next is constantly fluctuating on the federal level and varies in amount from state to state. For example, the federal estate tax exclusion has varied over the last 10 years from $1.5 million to an unlimited amount and settled in 2013 at $5.0 million plus an annual inflation adjustment. On the state level, in New York for example the maximum estate tax exclusion is $1.0 million. While people too often focus on being subject to estate taxation, the reason for an estate plan is not just to mitigate estate taxes. Efficient intergenerational asset transfer is one of, if not the most important topics that is planned for when designing an estate plan. Tax arbitrage techniques such as the Stretch IRA provision and step-ups in cost basis of certain inherited assets are two tax savings areas that should be addressed in an estate plan. Both of these concepts can be planned for and will result in a tax savings during the transfer of an estate. Just because your net worth is below the estate tax exemption benchmark does not mean you should neglect planning for how to keep your estate intact as it passes from generation to generation.

20. What are the biggest mistakes retirees make?

Unfortunately, some retirees do not take the time or have the knowhow to complete a financial plan. This leads to segmentation with no coordination among the areas of their financial life. Consequently, retirees over-spend to meet certain needs or totally neglect others that should be addressed. Another common mistake is that recent retirees often are too conservative with their assets. In the absence of planning, folks who are just starting their retirement life often do not enjoy the money they were able to save throughout their entire working life. Proper planning gives retirees the assurance to live their life and enjoy their health and happiness without worrying about running out of money later.

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