

21st century retirement

Permanent Life Insurance Offers Benefits at Any Age

With life expectancies on the rise, many Americans can expect to live 20 to 30 years in retirement. Today's baby boomers are changing the perceptions of retirement as they pursue their dreams and accomplish long-standing goals, such as exotic travel or new business pursuits. But with so many dreams to fulfill and a growing number of retirement years to plan, an early start to retirement planning has never been more crucial. For this reason, regardless of your age, it is important to begin planning today for your future financial independence and that of your loved ones.

As you create your retirement plan, you may find that the inclusion of **permanent life insurance**, also known as **cash value life insurance**, may be beneficial. Permanent life insurance can offer protection to your family during your working years when financial obligations may be greatest. This type of insurance can be a valuable long-term tool because the younger you are, the more affordable it may be. In addition, the longer the policy is held, the greater its potential future value may be. Here are some ways in which permanent life insurance may help safeguard your retirement future:

1. Lifestyle benefits. As life expectancies increase, many retirees know their existing assets must support them for an unspecified number of years. Building assets to generate sufficient income is a major concern of many planning for retirement. Permanent life insurance may help ensure a surviving spouse will be financially sound with the income tax-free death benefit provided by the policy. Additionally, couples may choose to access the cash values to supplement existing income or to pursue a lifelong goal. It is important to note that any cash value that is not repaid will reduce the policy's death benefit amount.

2. Burial expenses. Medical and burial expenses can be significant. Unfortunately, without life insurance coverage or any pre-death planning in place, surviving family members may have to pay these expenses from their own assets. The proceeds of a life insurance policy can be used to help cover these expenses.

3. Estate protection. Many people are concerned about the legacies they will leave their heirs. Permanent life insurance can create an instant estate

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The Retirement Community Alternative

Whether you are on the verge of retirement or it is years away, many of your current financial decisions are shaped by the questions of where you will live in the future and how your financial and social needs will be met. In addition to decisions about your own future, you may have aging parents who need help working through the complexities of choosing retirement housing.

Changing Needs

Your housing needs can be affected by any number of life changes, including seeing your children move out of the family home, experiencing health issues, or becoming a widow or widower. Each of these life changes can raise questions regarding the physical layout of your home, the maintenance required to take care of it, and the location of necessary resources, as well as the need for continued social interaction.

If you have lived in the same neighborhood for many years, the thought of moving can be both difficult and emotional. In addition to a lifetime of memories, your family home offers the comfort of familiarity and an important sense of community. It also may be completely paid off by the time you retire. However, its size and maintenance requirements may become increasingly difficult to manage. The family home may also feel isolating if its location limits access to social support systems, particularly if lifelong friends are no longer nearby.

Consider a Retirement Community

Retirement communities are enjoying increased popularity as an alternative means to meet the



housing needs of senior citizens. Many retirement communities offer an array of services, with costs directly related to the level of direct care provided. A complete community may have independent living options with condominiums and apartments; supervised assisted living for those who need help with basic daily activities but not full-time nursing care; and a health center for those requiring more intensive nursing care.

There are a number of advantages to such living arrangements. The first is the security of knowing that medical care and support services are readily available. Indeed, the ability to shift from independent living to a nursing home level of care without having to make difficult moving decisions is one attraction of retirement communities. Second, financial concerns may be eased by committing to a total life care community, particularly if providing for later health care has been done before the need arises. Third, most retirement communities offer planned activities and transportation to meet a variety of recreational and social needs. Many active seniors enjoy the ease of socialization a retirement community provides.

Addressing Concerns

Despite the ability to meet the needs of older adults in terms of medical services, safety, and social interaction, isolation from family and prior friends can mean a difficult adjustment for some people who choose to move to a retirement community. Pressure to interact with others can infringe on one's sense of privacy, and some retirees dislike the idea of being in a community composed solely of people their own age.

There are also procedural issues that need to be addressed. One of the most important questions involves who decides when the resident needs a higher level of care. This issue affects both the individual's sense of self-esteem and independence, as well as the cost of care. When couples move into a retirement community, it is important to consider how the necessity for an increased level of care for one spouse may affect the independence of the other spouse.

The decision to enter a retirement community involves a lot of thoughtful planning. Knowing in advance some of the factors involved can help facilitate the decision-making process for you and your loved ones. ■

Understanding Inherited IRAs

Naming a beneficiary for your **traditional Individual Retirement Account (IRA)** need not be a difficult task. Most people choose their spouse, if married, or another loved one. However, the rules governing the distribution of IRA assets to beneficiaries are not as simple. They generally involve two separate issues: 1) the age of the IRA owner at the time of death, and 2) the *identity* of the IRA **beneficiary**.

Under IRS regulations, taxpayers who own an IRA must begin taking **required minimum distributions (RMDs)** by April 1st of the year following the calendar year during which they reach age 70½. If an IRA owner dies *before* RMDs have begun, a spousal beneficiary can choose to withdraw all IRA assets within five years, to maintain the IRA under the deceased spouse's name, or to treat the IRA as his or her own.

Suppose Tom (a hypothetical case) dies and his wife, Sophia, is the beneficiary of his IRA. If Sophia maintains the IRA in Tom's name, minimum distributions do not have to begin

until December 31st of the later of 1) the year following the year of Tom's death, or 2) the year in which Tom would have reached age 70½. However, distributions would be based on Sophia's life expectancy. If Sophia chooses to treat the IRA as her own, she is entitled to name new beneficiaries, and the rules governing RMDs would be the same as if the IRA were originally her own. Therefore, distributions would have to begin by April 1st of the year after the year in which she turns 70½, and the required amount would be based on her life expectancy.



If Tom were to die *after* RMDs had begun, the options for Sophia would be different. She would receive distributions based on Tom's life expectancy or her own, whichever

is longer. As another option, Sophia could opt to **roll over** Tom's assets into her own IRA. (This option is not available for IRAs that have been annuitized.)

Suppose Tom had named his son Phillip as the beneficiary of his IRA. Non-spousal beneficiaries may not treat IRAs as their own and cannot name additional beneficiaries. If Tom were to die *before* RMDs had begun, all assets in the account must be distributed by the end of the fifth anniversary year of his death. Alternately, Phillip may elect to receive distributions over his own life expectancy. The amount of distributions is based on *Phillip's* life expectancy, and distributions must begin by December 31st of the calendar year immediately following the calendar year of Tom's death. If Tom were to die *after* RMDs had begun, the assets must be distributed over a period not exceeding the larger of Tom's or Phillip's life expectancy.

For more information regarding inherited IRAs, consult your qualified tax professional. ■

Roth 401(k) Rollovers Now Available

Since it was introduced in 2006, many employers have added the Roth 401(k) to their benefit packages as a retirement savings option. With a traditional 401(k), you make contributions on a pre-tax basis, which lowers your current taxable income, and earnings in the account have the potential to grow tax deferred. However, your distributions in retirement will be subject to ordinary income tax. On the other hand, your contributions to a Roth 401(k) are made with after-tax dollars, but

potential earnings and distributions are tax free, as long as you have held the account for at least five years and are at least 59½ years old.

Under the Small Business Jobs Act of 2010, participants in traditional 401(k), 403(b), and 457(b) plans are now permitted to roll over funds into Roth accounts within their plans, if available. Because contributions to traditional 401(k)s are made on a pre-tax basis, any eligible funds transferred from

traditional to Roth 401(k) accounts are taxed in the year of conversion.

So, is it better to pay taxes on your retirement funds now or later? The most appropriate choice depends on your current tax situation and your long-term financial goals. If you are interested in rolling over funds into a Roth 401(k), be sure to talk to your company's benefit administrator about the options available to you as part of your company's retirement plan. ■

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for the named beneficiary. It can also provide funds to help cover the cost of estate taxes. Asset transfers to beneficiaries other than a spouse that exceed the applicable exclusion amount (\$5,000,000 in 2011) may be subject to substantial estate tax, and insurance policy proceeds may be used to help pay these taxes. With proper preparation, you and your loved ones can help ensure that family heirlooms and property remain in the family and will not have to be sold quickly to pay estate taxes.

How It Works

Provided that policy premiums are paid on time, a permanent life insurance policy can provide coverage for your entire lifetime. In fact, for certain policies, benefits include premiums that may never increase, benefits that never decrease, and a policy that cannot be canceled regardless of changes in your health.

Permanent life insurance policies offer death benefits that are free of income tax, as well as a tax-deferred cash value component. This means that a portion of premium payments to a permanent life insurance policy is used to build cash value, which can be borrowed, oftentimes tax free, for a variety of uses. Retirees may use cash values to help cover educational expenses for younger generations, supplement retirement income, pay for travel, start a new business

venture, or even purchase a second home.

It is important to note that distributions of cash value will have an impact on the policy. Distributions under a policy (including cash dividends and partial/full surrenders) are not subject to taxation up to the amount paid into the policy (cost basis). However, if the policy is a Modified Endowment Contract, policy loans and/or distributions are taxable to the extent of gain and are subject to a 10% tax penalty. Access to cash values through borrowing or partial surrenders can reduce the policy's cash value and death benefit, can increase the chance the policy will lapse, and may result in a tax liability if the policy terminates before the death of the insured.

Many permanent life insurance policies also offer non-guaranteed dividend payments, which can be paid when the insuring company's expenses are lower than originally projected. Dividends can be used for a variety of purposes, including as a source of income or as a means to buy additional coverage or to cover existing premium payments.

Permanent life insurance policies may offer a variety of benefits to you and your family for your entire lifetime. Besides the knowledge that your designated beneficiary(ies) will receive the proceeds of the policy upon your death, you may also have the ability to access the cash values before that time. A permanent life insurance policy can be an important component of an ongoing, long-term financial strategy. ■



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