

Projecting a Happy Retirement

A 2015 study found that 41% of households headed by someone aged 55 to 64 had no retirement savings, and only about a third of them had a traditional pension. Among households in this age group with savings, the median amount was just \$104,000.¹

Your own savings may be more substantial, but in general Americans struggle to meet their savings goals. Even a healthy savings account may not provide as much income as you would like over a long retirement.

Despite the challenges, about 56% of current retirees say they are very satisfied with retirement, and 34% say they are moderately satisfied. Only 9% are dissatisfied.²

Develop a realistic picture

How can you transition into a happy retirement even if your savings fall short of your goals? The answer may lie in developing a realistic picture of what your retirement will look like, based on your expected resources and expenses. As a starting point, create a simple retirement planning worksheet. You might add details once you get the basics down on paper.

Estimate income and expenses

You can estimate your monthly Social Security benefit at ssa.gov. The longer you wait to claim your benefits, from age 62 up to age 70, the higher your monthly benefit will be. If you expect a pension, estimate that monthly amount as well. Add other sources of income, such as a part-time job, if that is in your plans. Be realistic. Part-time work often pays low wages.



It's more difficult to estimate the amount of income you can expect from your savings; this may depend on unpredictable market returns and the length of time you need your savings to last. One simple rule of thumb is to withdraw 4% of your savings each year. At that rate, the \$104,000 median savings described earlier would generate \$4,160 per year or \$347 per month (assuming no market gains or losses). Keep in mind that some experts believe a 4% withdrawal rate may be too high to maintain funds over a long retirement. You might use 3% or 3.5% in your calculations.

Now estimate your monthly expenses. If you've paid off your mortgage and other debt, you may be in a stronger position. Don't forget to factor in a reserve for medical expenses. One study suggests that a 65-year-old couple who retired in 2015 would need \$259,000 over their lifetimes to cover Medicare premiums and out-of-pocket health-care expenses, assuming they had only median drug expenses.³

Take strategic steps

Your projected income and expenses should provide a rough picture of your financial situation in retirement. If retirement is approaching soon, try living for six months or more on your anticipated income to determine whether it is realistic. If it's not, or your

anticipated expenses exceed your income even without a trial run, you may have to reduce expenses or work longer, or both.

Even if the numbers look good, it would be wise to keep building your savings. You might take advantage of catch-up contributions to IRAs and 401(k) plans, which are available to those who reach age 50 or older by the end of the calendar year. In 2016, the IRA catch-up amount is \$1,000, for a total contribution limit of \$6,500. The 401(k) catch-up amount is \$6,000, for a total employee contribution limit of \$24,000.

Preparing for retirement is not easy, but if you enter your new life phase with eyes wide open, you're more likely to enjoy a long and happy retirement.

¹U.S. Government Accountability Office, "Retirement Security," May 2015

²The Wall Street Journal, "Why Retirees Are Happier Than You May Think," December 1, 2015

³Employee Benefit Research Institute, Notes, October 2015

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Life Insurance Options After Retirement

Life insurance can serve many valuable purposes during your life. However, once you've retired, you may no longer feel the need to keep your life insurance, or the cost of maintaining the policy may have become too expensive. In these cases, you might be tempted to abandon the policy or surrender your life insurance coverage. But there are other alternatives to consider as well.

Lapse or surrender

If you have term life insurance, you generally will receive nothing in return if you surrender the policy or let it lapse by not paying premiums. On the other hand, if you own permanent life insurance, the policy may have a cash surrender value (CSV), which you can receive upon surrendering the insurance. If you surrender your cash value life insurance policy, any gain (generally, the excess of your CSV over the cumulative amount of premium paid) resulting from the surrender will be subject to federal (and possibly state) income tax. Also, surrendering your policy prematurely may result in surrender charges, which can reduce your CSV.

Exchange the old policy

Another option is to exchange your existing life insurance policy for either a new life insurance policy or another type of insurance

product. The federal tax code allows you to exchange one life insurance policy for another life insurance policy, an endowment policy, an annuity, or a qualified long-term care policy without triggering current tax liability. This is known as an IRC Section 1035 exchange. You must follow IRS rules when making the exchange, particularly the requirement that the exchange must be made directly between the insurance company that issued the old policy and the company issuing the new policy or contract. Also, the rules governing 1035 exchanges are complex, and you may incur surrender charges from your current life insurance policy. In addition, you may be subject to new sales, mortality, expense, and surrender charges for the new policy, which can be very substantial and may last for many years afterward.

Lower the premium

If the premium cost of your current life insurance policy is an issue, you may be able to reduce the death benefit, lowering the premium cost in the process. Or you can try to exchange your current policy for a policy with a lower premium cost. But you may not qualify for a new policy because of your age, health problems, or other reasons.

Stream of income

You may be able to exchange the CSV of a permanent life insurance policy for an immediate annuity, which can provide a stream of income for a predetermined period of time or for the rest of your life. Each annuity payment will be apportioned

between taxable gain and nontaxable return of capital. You should be aware that by exchanging the CSV for an annuity, you will be giving up the death benefit, and annuity contracts generally have fees and expenses, limitations, exclusions, and termination provisions. Also, any annuity guarantees are contingent on the claims-paying ability and financial strength of the issuing insurance company.

Long-term care

Another potential option is to exchange your life insurance policy for a tax-qualified long-term care insurance (LTCI) policy, provided that the exchange meets IRC Section 1035 requirements. Any taxable gain in the CSV is deferred in the long-term care policy, and benefits paid from the tax-qualified LTCI policy are received tax free. But you may not be able to find a LTCI policy that accepts lump-sum premium payments, in which case you'd have to make several partial exchanges from the CSV of your existing life insurance policy to the long-term care policy provider to cover the annual premium cost.

A complete statement of coverage, including exclusions, exceptions, and limitations, is found only in the policy. It should be noted that carriers have the discretion to raise their rates and remove their products from the marketplace.



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