Security National
WEALTH MANAGEMENT

Take Control of Your Retirement Assets

Strategies for a new phase of life

Topical Education for Today's Investor PLANNING FOR YOUR RETIREMENT

After years of saving and investing, you can finally see the big day — retirement. But before stepping back to enjoy realization of your next set of dreams and goals, you still need to address a few matters. Decisions made now could make the difference between your money outlasting you or vice versa.

Calculating Your Retirement Needs

First, work with your financial advisor to determine how much income you may need during retirement. When retirement was years away, this exercise may have involved a lot of estimates. Now, you can be more accurate. Consider the following factors:

- **Your home base –** Do you intend to remain in your current home? If so, when will your mortgage be paid? Will you sell your current home for one of lesser value, or "trade up"?
- **The length of your retirement –** The average 65-year-old man can expect to live about 17 more years; the average 65-year-old woman, 20 more years, according to the National Center for Health Statistics. This means that many 65-year-olds will live longer than these averages. Have you accounted for a retirement of 25 or more years?
- **Earned income –** The Bureau of Labor Statistics estimates that by 2015, 10% of women and 20% of men aged 65 or older will still be employed. If you continue to work, even part time, how much might you earn?
- **Your retirement lifestyle –** Your lifestyle will help determine how much preretirement income you'll need to support yourself. A typical guideline is 60% to 80%, but if you want to take luxury cruises or start a business, you may well need 100% or more.
- **Health care costs and insurance –** Many retirees underestimate health care costs. Most Americans are not eligible for Medicare until age 65, but Medicare doesn't cover everything. You can purchase Medigap supplemental health insurance to cover some of the extras, but even Medigap insurance does not pay for long-term custodial care, eyeglasses, hearing aids, dental care, private-duty nursing, or unlimited prescription drugs. For more on Medicare and health insurance, visit www.medicare.gov.
- **Inflation –** Although the inflation rate can be relatively tame, it can also surge. It's a good idea to account for the impact of inflation on your purchasing power, so work with your financial advisor to determine an appropriate estimate.

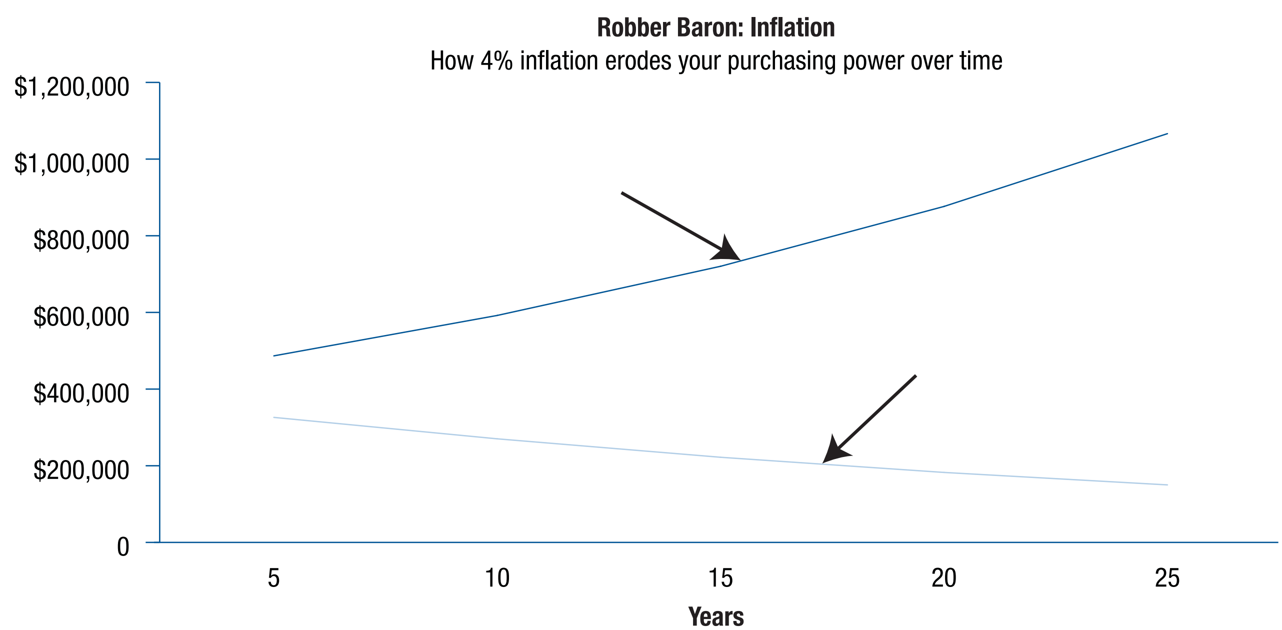
Running the Numbers

The next step is to identify all of your potential income sources, including Social Security, pensions, and personal investments. Don't overlook cash-value life insurance policies, income from trusts, real estate, and the equity in your home.

Also focus your investment planning on your asset allocation — how you divide your portfolio among stocks, bonds, and cash. Are you tempted to convert all of your investments to low-risk securities such as cash equivalents or government bonds? Such a move may place your assets at risk of losing purchasing power due to inflation. You may live in retirement for a long time, so try to keep your portfolio working for you — both now and in the future — in order to sustain your income requirements for a long time. Your financial advisor can help you determine an appropriate asset allocation.

Here's how a 4% inflation rate would erode $400,000 over a 25-year period. Because inflation slowly eats away at the purchasing power of a dollar, it's important to factor inflation into your annual retirement expenses.

Robber Baron: Inflation



A New Phase of Financial Planning

Once you've assessed your needs and income sources, it's time to look at leveraging the nest egg you've built up. First, determine a prudent withdrawal rate. Developing an appropriate withdrawal rate takes careful analysis and planning with your financial advisor. Take the time to thoroughly discuss your goals, dreams and concerns with your financial advisor to help determine the best withdrawal plan for you.

Next, you'll need to decide when to tap into tax-deferred and taxable investments. The advantage of holding on to tax-deferred investments (employer-sponsored retirement plan assets, IRAs, and annuities) is that they compound on a before-tax basis and therefore have greater earning potential than their taxable counterparts.[1] However, earnings and deductible contributions in tax-deferred accounts are subject to income tax upon withdrawal — a tax that can be as high as 35% at the federal level. In contrast, long-term capital gains from the sale of taxable investments are currently taxed at a maximum of 15%. The key to managing taxes is to determine the best strategy given your income needs and tax bracket.

Also, tax-deferred assets are subject to **required minimum distributions (RMDs)** — based on IRS life expectancy tables — after you reach age 70½. Failure to take the required distribution can result in a penalty equal to 50% of the required amount. Fortunately, RMD guidelines do not apply to Roth IRAs or annuities.[1] For more information on RMDs, speak with your financial advisor, call the IRS at 1-800-829-1040 or visit www.irs.gov.

A Lifelong Strategy

A carefully crafted retirement strategy also takes into account your estate plan. A will is the most basic form of an estate plan, as it helps ensure that your assets get disbursed according to your wishes. Also, make sure that your beneficiary designations for retirement accounts and life insurance policies are up-to-date and in sync with your estate plan.

If estate taxes are a concern, you may want to consider strategies to help manage income while minimizing your estate tax obligation. For example, with a grantor retained annuity trust (GRAT), you move assets to an irrevocable trust and then receive an annual annuity for a specific number of years. At the end of that period, the remaining value in the GRAT passes to your beneficiary — usually your child — generally free of gift taxes. Another option might be a charitable remainder trust, which allows you and/or a designated beneficiary to receive income during life and a tax deduction at the same time. Ultimately, the assets pass free of estate taxes to a named charity.

It's easy to become overwhelmed by all the financial decisions that you must make at retirement. The most important part of the process is to consult a qualified financial advisor, a tax advisor, and an estate-planning attorney to make sure that you're prepared for this new — and exciting — stage of your life.

Points to Remember

1. Several factors influence the amount of retirement income that you'll need, including your housing cost, the length of your retirement, whether you have earned income, your retirement lifestyle, health care and insurance costs, and the rate of inflation.

2. It's important to identify all of your potential income sources, and properly divide your portfolio's asset allocation so your investments will support you throughout retirement, which could last 20 or more years.

3. It's also crucial to figure out the percentage of retirement assets you can afford to withdraw each year, and when to tap into tax-deferred and taxable investments.

4. Failure to take the required minimum distribution from many tax-deferred accounts after you reach age 70½ can result in a tax penalty equal to 50% of the required amount.

5. A sound retirement financial strategy includes an effective estate plan, which can help maximize current income while minimizing the tax bite to you and your heirs.

For more information, please contact your financial advisor.

Important Additional Notes

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1 Withdrawals from tax-deferred accounts prior to age 59½ may be subject to a 10% penalty tax. Neither fixed nor variable annuities are insured by the Federal Deposit Insurance Corp., and they are not deposits of — or endorsed or guaranteed by — any bank. Nonqualified withdrawals from annuities may result in additional surrender charges.

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