Four Pillars of a Successful Retirement

Are You Ready?

This material was written and prepared by Broadridge Advisor Solutions.

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Are You Prepared for One of the Biggest Transitions in Your Life?

Retirement is usually seen as life's reward for working hard, supporting a family, and saving your hard-earned dollars. You celebrate with a big party and then move into this exciting, new life stage. Is that how you envision it?

In the past, retirement often meant switching from a paycheck to a pension check, contacting Social Security to get benefits in motion, and maybe supplementing that income with the proceeds from downsizing a home or renting a property.

But times have changed. Retirement can now mean piecing together a big puzzle, composed of a variety of different resources, to ensure you have enough to live on — and maybe have something left to pass on to heirs if that's one of your goals.

Do you have the **time**...

...the **desire**...

...and most important, the **knowledge**...

...to build a financial strategy for retirement?

Four Pillars of a Successful Retirement

These four factors could affect your retirement lifestyle:

Tax Planning — Making sure that Uncle Sam doesn't get more than his fair share

Social Security — Deciding carefully when and how to tap your Social Security benefits

Income Strategy — Developing an income strategy that covers your everyday expenses and basic needs, funds your "wants," and still leaves room for "surprises"

Legacy Planning — Planning for your later years and beyond, especially if one of your objectives is to leave a legacy

Understanding a little more about the nuances within each pillar — and how they relate to each other — can help you become better prepared for what lies ahead.

Introduction

Three Risks

Your ability to live the retirement lifestyle you want — and deserve — may depend on how well you're able to prepare for and manage these three risks:

- Inflation, or the rising cost of living
- Health-care costs
- Unpredictability of the financial markets

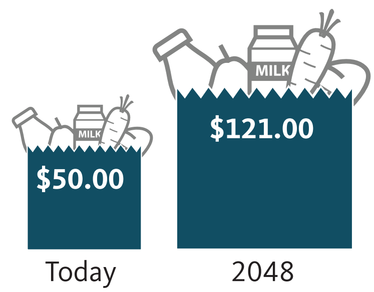
Why Inflation Really Matters

A healthy 65-year-old man can expect to live to age 83; and a healthy 65-year-old woman can expect to live to age 86.

Source:
National Center for Health Statistics Data Brief, Number 293, December 2017

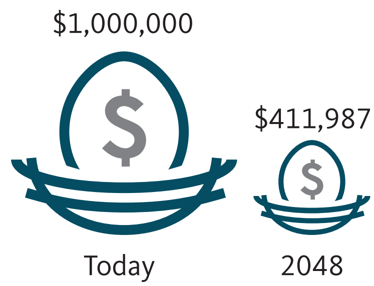
Inflation

Inflation, the rise in consumer prices over time, has an effect on everything — from the cost of a car and a home, to energy prices, to a bag of groceries. Inflation is also the reason your money loses purchasing power over time.



Consider how a 3% inflation rate over 30 years could affect the cost of a $50 bag of groceries — or the purchasing power of a $1 million retirement nest egg.

The cost of groceries would more than double, and the $1 million nest egg would have the purchasing power of $411,987!



These hypothetical examples of mathematical principles are used for illustrative purposes only. Actual results will vary.

Rising Costs of Health Care

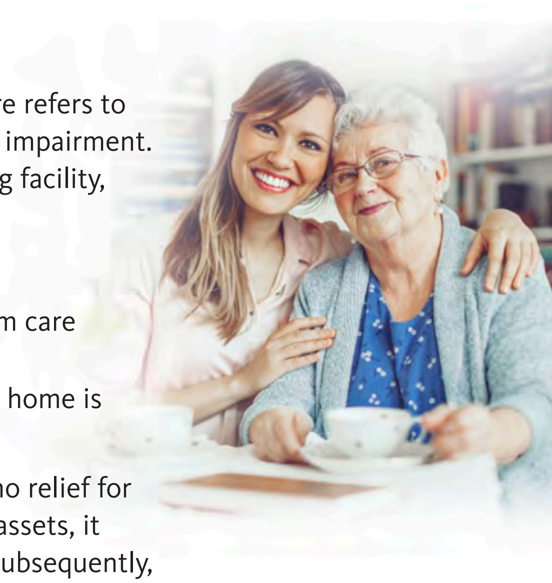
Many people underestimate the potential cost of health care in retirement, forgetting the premiums, copays, deductibles, and prescription drugs they might have to cover — even with Medicare, which typically covers approximately 60% of the average retiree's health-care costs.

If Medicare benefits remain unchanged, it's estimated that 65-year-olds who retired in 2017 might need the following amounts to cover their health expenses in retirement (assuming median drug expenses).

And consider that medical costs could be even higher if you have a chronic illness or high prescription drug costs. Further, other costs such as dental expenses, glasses, and hearing aids aren't captured in these figures.

Source: Employee Benefit Research Institute, 2017

Introduction



Long-Term Care

Another risk you might face is the need for long-term care. Long-term care refers to the assistance needed to manage a chronic illness, disability, or cognitive impairment. It includes nursing home care as well as care provided in an assisted-living facility, adult day-care center, or even at home.

The statistics surrounding long-term care can be scary. Consider that:

- More than half of people over age 65 will need some form of long-term care during their lifetimes
- Currently, the average annual cost of a semi-private room in a nursing home is $82,128, and in many states the cost is much higher

Unfortunately, Medicare and traditional medical insurance offer little or no relief for this type of care. And if you qualify for Medicaid by spending down your assets, it typically means you lose some control over where you receive care and, subsequently, the type of care offered.

Source: U.S. Department of Health and Human Services, 2018

Rising Costs

If long-term care costs rose at just 3% a year, a one-year stay in a nursing home would top $149,000 in 20 years.

This cost projection is a hypothetical example of mathematical principles and is used for illustrative purposes only. Actual results will vary.

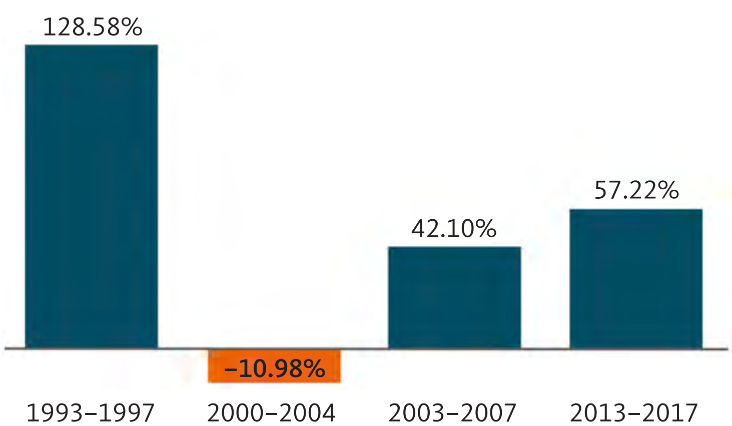
Unpredictability of the Financial Markets

It's a hard truth of investing: The financial markets change, often unexpectedly and sometimes dramatically. Generally, it's a case of *when* and not *if* it happens.

And *if* it happens *when* you're about to retire — or when you're in the midst of drawing down your investments for income — it can be unsettling to say the least.

The following outcomes illustrate the cumulative returns of the S&P 500 composite stock index over four different five-year periods. As you can see, they produced vastly different results. Although the cumulative returns for three periods were positive, the five-year period from 2000 through 2004 had a *negative* cumulative return.

S&P 500 Cumulative Returns



Source: Thomson Reuters, 2018, for the periods 1/1/1993 to 12/31/1997; 1/1/2000 to 12/31/2004; 1/1/2003 to 12/31/2007; and 1/1/2013 to 12/31/2017. The S&P 500 composite index total return is generally considered to be representative of U.S. stocks. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Rates of return will vary over time, particularly for long-term investments. Past performance is not a guarantee of future results. Actual results will vary.

Introduction

Bear Market Retiree

Would you be concerned about the longevity of your portfolio if a bear market occurred as you were about to retire, or soon after you retired? Consider this hypothetical example.

Steven retired in 1976 and experienced a bear market environment — a period during which the prices of securities are generally falling, resulting in a downturn of 20% or more in several broad market indexes and occurring over a period of several months or longer.

His initial $500,000 retirement portfolio, held in tax-deferred accounts, was balanced evenly between stocks and bonds. Steven planned to take $40,000 annual portfolio withdrawals, adjusted for inflation, for income.

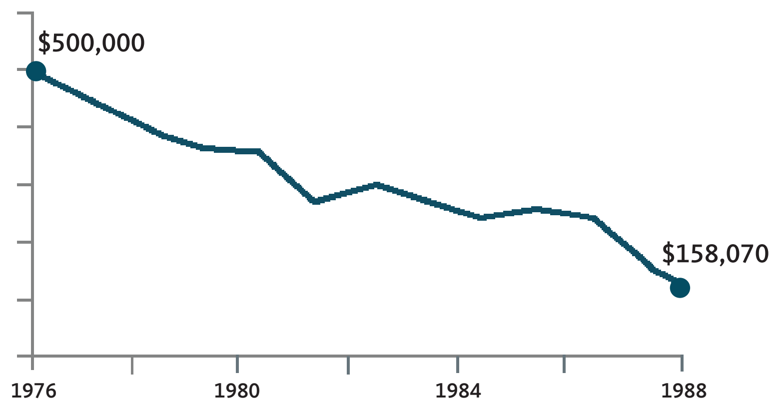
By 1988, Steven's portfolio had lost two-thirds of its value, largely as a result of declining stock prices and high inflation.

Maintaining Perspective

The bull market that began in March 2009 is the longest since World War II. It reached its ninth birthday on March 9, 2018. Only time will tell when it will eventually end.

Source:
CNBC, August 22, 2018

Steven's Portfolio



Source: Thomson Reuters, 2018, for the period 1/1/1976 to 12/31/1988. This hypothetical example is used for illustrative purposes only and does not reflect any specific investment. The original $500,000 portfolio held 50% stocks and 50% bonds in tax-deferred accounts. In the first year, $40,000 was withdrawn for income, and in subsequent years an inflation-adjusted equal amount was withdrawn. Stocks are represented by the S&P 500 composite index total return, which is generally considered to be representative of U.S. stocks. Bonds are represented by Citigroup Corporate Bond Composite Index, which is generally considered representative of the corporate bond market. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Rates of return will vary over time, particularly for long-term investments. Past performance is not a guarantee of future results. Actual results will vary.

Tax Planning

Taxes, like inflation, are an ever-present factor that have the potential to siphon away your retirement assets over time. That's why it's vital to understand the basic tax rules that will apply during your retirement years.

A good understanding of the applicable tax rules can help you avoid costly mistakes.

Tax Legislation

Tax rules change with some frequency, which is one of the reasons why factoring taxes into your retirement planning is particularly difficult. The Tax Cuts and Jobs Act, a sweeping $1.5 trillion tax-cut package that dramatically reshaped the tax landscape, passed in late 2017. The legislation made significant changes to the tax rules that govern businesses and relate to individuals.

Most of the tax changes were effective as of January 1, 2018. While most of the business tax changes are permanent, changes affecting individuals are scheduled to expire at the end of 2025 (unless changed by future legislation).

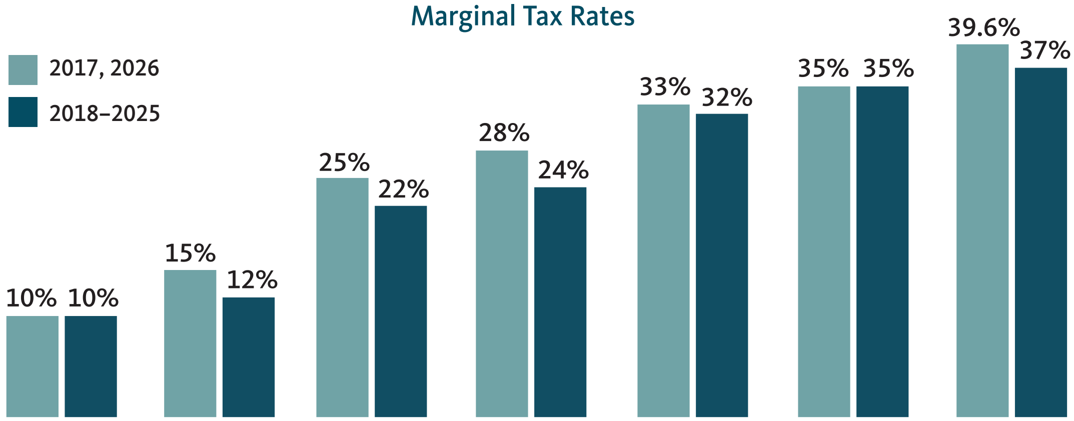
How Will Your Income Be Taxed?

The way in which your income is taxed depends on what kind of income it is — for example, income from wages or capital gains — and in some cases what kind of account or vehicle is generating the income.

Most of the income you receive, other than long-term capital gains and qualified dividends, is *ordinary income*. Tax on ordinary income is based on seven marginal income tax brackets. Because the United States has a progressive tax system, the higher your income, the higher the tax rate that applies to the next dollar of income that you receive.

Ordinary income includes wages, business income, gambling winnings, and any taxable portion of Social Security benefits.

Marginal Tax Rates



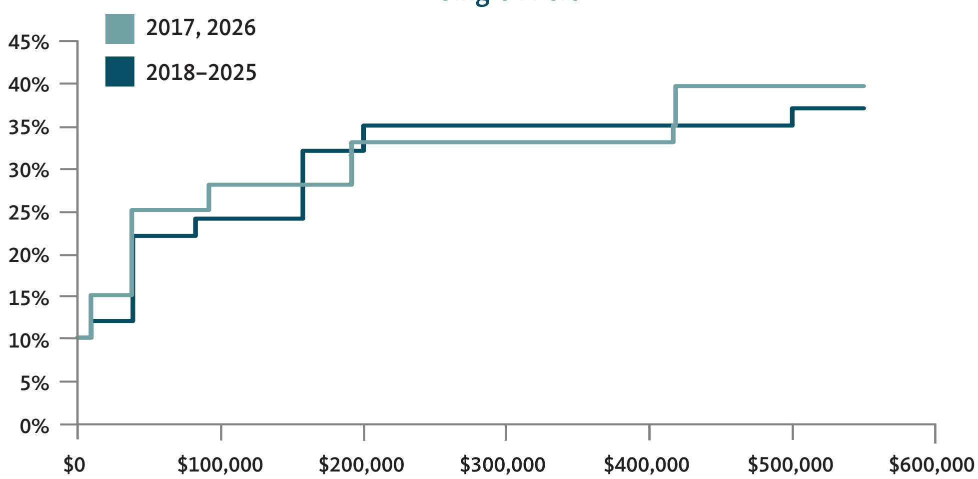
The Tax Cuts and Jobs Act lowered all but two of the seven marginal tax brackets that applied before 2018. Because the individual changes made by the legislation expire at the end of 2025, the pre-2018 rates will come back into effect in 2026 (unless extended). The legislation also made some significant changes to the ranges of taxable income covered by the different rates.

Tax Planning

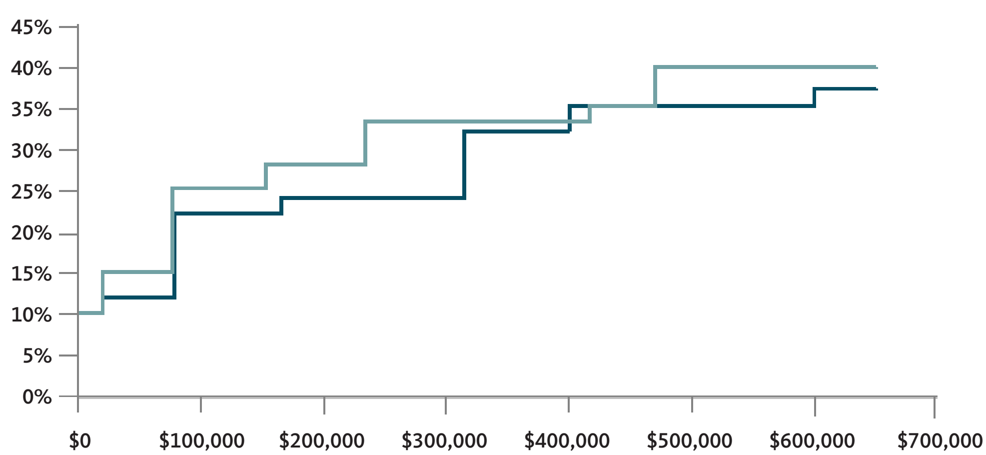
Marginal Tax Rates

Here's how the marginal rates apply to different ranges of taxable income for single filers and married couples filing jointly. The light teal line represents the new applicable rates introduced by the Tax Cuts and Jobs Act, while the dark teal line represents the rates that applied in 2017.

Single Filers



Married Couples Filing Jointly



As you can see, the new tax rates for single filers are not beneficial across the board. For those with taxable incomes ranging from about $157,000 to roughly $416,000, the applicable tax rate is for the most part actually higher under the new rates.

The story is much better for married individuals. If you're married and file a joint return, the new marginal tax rates are more favorable at almost all levels of taxable income.

Two Terms Describing Our Federal Income Tax System

Progressive. Generally, the higher your taxable income, the higher the tax rate that will apply to your next dollar of income.

Voluntary. You are responsible for calculating your own taxes, reporting them appropriately to the government, and paying any taxes due.

Tax Planning

2018 Marginal Tax Rates

Let's clear up one misconception. If you're in the 24% marginal tax bracket, that does *not* mean all of your income is taxed at 24%. Only taxable income exceeding the threshold for a given tax bracket is taxed at that rate. This is reflected in the tax table below. It's basically the same format used in the IRS Form 1040 instructions to calculate your tax.

Marginal tax rate = rate on next dollar of taxable income

Effective tax rate = total tax ÷ taxable income

Single filer	
If taxable income is:	**Your tax is:**
Not over $9,525	10% of taxable income
Over $9,525 to $38,700	$952.50 plus 12% of the excess over $9,525
Over $38,700 to $82,500	$4,453.50 plus 22% of the excess over $38,700
Over $82,500 to $157,500	$14,089.50 plus 24% of the excess over $82,500
Over $157,500 to $200,000	$32,089.50 plus 32% of the excess over $157,500
Over $200,000 to $500,000	$45,689.50 plus 35% of the excess over $200,000
Over $500,000	$150,689.50 plus 37% of the excess over $500,000

Married filing jointly (and surviving spouses)	
If taxable income is:	**Your tax is:**
Not over $19,050	10% of taxable income
Over $19,050 to $77,400	$1,905 plus 12% of the excess over $19,050
Over $77,400 to $165,000	$8,907 plus 22% of the excess over $77,400
Over $165,000 to $315,000	$28,179 plus 24% of the excess over $165,000
Over $315,000 to $400,000	$64,179 plus 32% of the excess over $315,000
Over $400,000 to $600,000	$91,379 plus 35% of the excess over $400,000
Over $600,000	$161,379 plus 37% of the excess over $600,000

So for the 2018 tax year, a single filer would pay tax at a rate of 10% on the first $9,525 of taxable income, and a rate of 12% on the next $29,175 of taxable income. That's why marginal tax rates are often described as "the rate of tax that you'll pay on your next dollar of taxable income."

Effective Tax Rate

Another way to think about your tax situation is in terms of your *effective tax rate*, which is basically the total amount of tax paid divided by your taxable income. Thus, a single filer with $40,000 in taxable income would be in the 22% income tax bracket. The formula for the tax liability would be:

$4,453.50 + 22% of $1,300	= $4,739.50 in taxes
$4,739.50 ÷ $40,000	= 11.85% effective tax rate

Tax Planning

Long-Term Capital Gains and Qualified Dividends

If you sell stock, bonds, or other capital assets for more than you paid for them, you have a *capital gain*. Capital gains receive special tax treatment, depending on how long you've held the asset generating the gain. If you've held the asset for one year or less, the gain is treated as a short-term capital gain and taxed as ordinary income. If you've held the asset for more than one year, however, the capital gain is considered long term, which means it is subject to a more favorable tax rate.

Qualified dividends, which are those that meet certain requirements, also benefit from the same special rates that apply to long-term capital gains.

The 0%, 15%, and 20% tax rates that apply to most long-term capital gains and qualified dividends remain unchanged under the Tax Cuts and Jobs Act, but the legislation did change the *benchmark* for knowing which rate applies. Previously, the rates were tied to your marginal income tax bracket. Now the rate that applies is tied to your taxable income.

Taxation of Fund Distributions

When mutual funds are held in taxable accounts, fund distributions are taxable to shareholders — either as short-term and/or long-term capital gains, dividends, or interest — for the year in which they are received, even if distributions are reinvested in new shares.

Long-Term Capital Gains Rates

Single	Married filing jointly	Married filing separately	Head of household	Tax rate
Up to $38,600	Up to $77,200	Up to $38,600	Up to $51,700	0%
$38,601 up to $425,800	$77,201 up to $479,000	$38,601 up to $239,500	$51,701 up to $452,400	15%
More than $425,800	More than $479,000	More than $239,500	More than $452,400	20%

Additional 3.8% Net Investment Income Tax

High-income taxpayers may also be subject to a 3.8% net investment income tax on investment income such as capital gains, dividends, interest, royalties, rents, and passive income if their modified adjusted gross income exceeds:

- **$200,000** — Single or head of household
- **$250,000** — Married filing jointly
- **$125,000** — Married filing separately

This additional tax does *not* apply to retirement income from IRAs or employer-sponsored retirement plans.

Tax Planning

Alternative Minimum Tax (AMT)

The AMT is essentially a separate, parallel federal income tax system with its own tax rates and rules. If you've been caught in the AMT net in the past, you're probably all too familiar with it.

Although the Tax Cuts and Jobs Act repealed the corporate AMT, it did not fully repeal the AMT for individuals. However, the legislation did significantly curtail the reach of the AMT. It increased AMT exemption amounts — the amount a taxpayer can deduct from taxable income before calculating AMT liability — and also *dramatically* increased the income threshold at which the exemption amounts begin to phase out. As a result, the AMT is much less likely to be a significant factor for most taxpayers in the next few years.

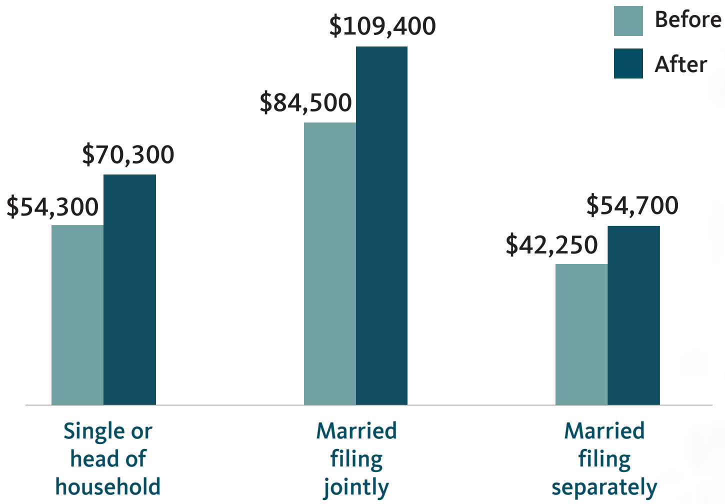
For 2018, taxpayers pay a tax rate of 26% on alternative minimum taxable income (AMTI) up to $191,100 ($95,550 if married filing separately). The tax rate increases to 28% on AMTI above this amount.

AMT Liability

Only about 200,000 tax filers are expected to owe the AMT in 2018, instead of the 5.25 million who could have been subject to the AMT under the old rules.

Source:
Tax Policy Center, 2017

AMT Exemption Amounts



Employer-Sponsored Retirement Plans and IRAs

You probably have funds saved in a traditional IRA or in an employer-sponsored retirement plan like a 401(k). These plans have a big tax advantage — funds in these accounts grow tax deferred. But when you take a distribution from tax-deferred vehicles, you're taxed at ordinary income tax rates. This is true even if the plan or account holds investments that generate long-term capital gains or qualified dividends. If you've made after-tax contributions to a tax-deferred plan, any portion of a distribution that represents a return of your after-tax contributions will not be taxed.

If you take a distribution from an IRA or an employer-sponsored retirement plan prior to age 59½, you may be subject to a 10% early-distribution penalty tax, unless an exception applies. Once you reach age 70½, you must begin taking required minimum distributions (RMDs) from your traditional IRA and employer-sponsored plan. If you don't take a required minimum distribution, a penalty tax is assessed equal to 50% of the amount that should have been withdrawn.

If you're holding your employer's company stock in your qualified retirement plan, there are special rules that may help you minimize your tax. A tax professional can explain your options.

Tax Planning

Roth Accounts

The biggest advantage of Roth accounts — whether you contribute to a Roth IRA or an employer-sponsored retirement plan — is that distributions will be completely free of federal income tax if certain conditions are met.

To qualify, you have to satisfy a five-year holding requirement, and you generally have to reach age 59½ before making the withdrawal. Also, unlike traditional IRAs, Roth IRAs are not subject to the rules requiring lifetime minimum distributions after age 70½. (Account beneficiaries, however, must take RMDs.) And you can continue contributing to a Roth IRA after age 70½ as long as you have earned income.

Enriching a Child with a Roth IRA

Many grandparents and parents may not realize that a child's earned income (from a job) could make him or her eligible to contribute to a Roth IRA. Because contributions are made on an after-tax basis, they can be withdrawn at any time, for any purpose, without triggering taxes or penalties.

You can even use your own funds to make Roth IRA contributions on behalf of a child who has earned income. The maximum contribution for someone under age 50 is $5,500 or the amount of compensation, whichever is less.

Annuities

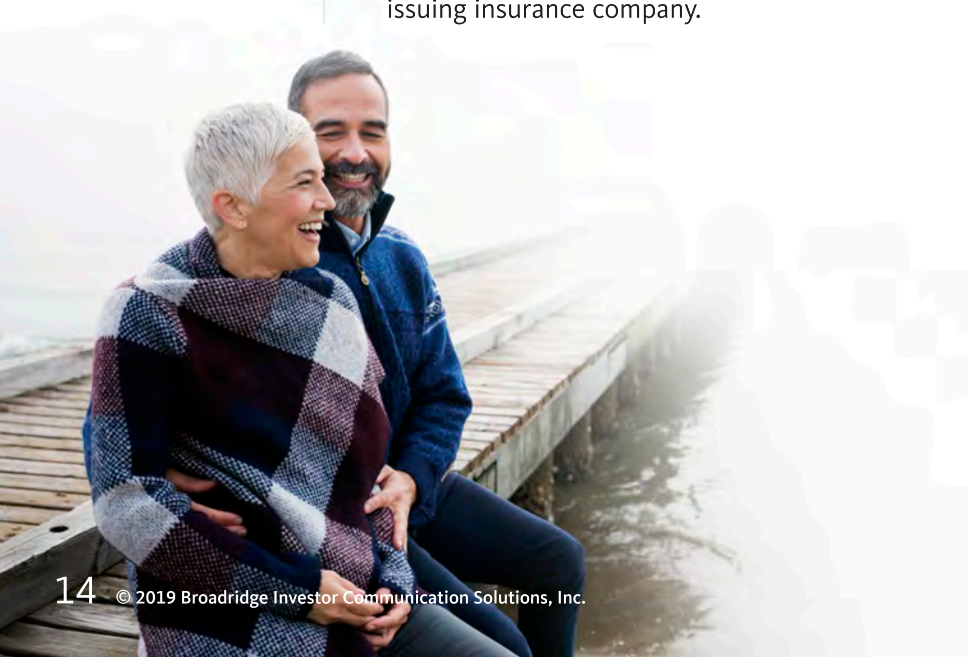
Annuities also have special rules about how proceeds are taxed. Annuity earnings accumulate on a tax-deferred basis; the portion of any annuity withdrawal or payout that's considered earnings will generally be taxed as ordinary income.

Generally, withdrawals are considered to be coming from the earnings portion of the annuity first, then from the principal. If you annuitize, however, each payment is considered to be partially a return of your principal investment and partially a distribution of earnings on that investment.

Unless an exception applies, in addition to the ordinary income tax on the earnings portion of a withdrawal, a 10% premature distribution tax will be imposed on earnings you take from your annuity prior to the date you reach age 59½.

It's also worth noting that annuities can be used in connection with tax-advantaged retirement plans such as 403(b) retirement plans or IRAs. In these cases, the annuities are commonly referred to as "qualified annuities," and the tax treatment depends more on the rules that apply to the retirement plan or IRA than on the annuity itself.

Generally, annuity contracts have fees and expenses, limitations, exclusions, holding periods, termination provisions, and terms for keeping the annuity in force. Most annuities have surrender charges that are assessed if the contract owner surrenders the annuity. Any guarantees are contingent on the financial strength and claims-paying ability of the issuing insurance company.



Tax Planning

Health Savings Accounts (HSAs)

An HSA is a tax-advantaged account that allows you to set aside funds to pay medical expenses. The funds contributed are typically pre-tax if you save through payroll deductions, or tax-deductible if you make contributions yourself using after-tax dollars. HSA contributions and earnings may or may not be subject to state taxes. HSAs have some significant tax benefits and can play a pretty significant role in planning for your retirement.

- Funds not used to pay current medical expenses roll over from year to year
- Funds grow tax deferred, allowing you to accumulate funds to pay medical costs in retirement
- Withdrawals used to pay qualified medical costs are tax-free
- Withdrawn funds not used to pay for qualified expenses are subject to ordinary income tax and a 20% penalty
- After age 65, funds withdrawn for any reason are not subject to the 20% penalty

2019 HSA Contribution Limits

You can contribute to an HSA if you are enrolled in a high-deductible health plan (HDHP) — a plan that offers "catastrophic" health coverage. An HDHP pays medical benefits only after you've satisfied high annual deductibles.

If you have self-only coverage in an HDHP, the 2019 HSA contribution limit is $3,500. If you have family coverage, the 2019 limit is $7,000.

Tax-Exempt Bonds

When talking about tax-exempt income, often the first thing that comes to mind is tax-exempt bonds.

Although interest on corporate bonds is taxable by local, state, and federal governments, the interest on municipal bonds (munis) issued by state and local governments is generally exempt from federal income tax. If you live in the state in which a specific muni is issued, it may be tax-free at the state or local level as well.

The income from Treasury securities, which are issued by the U.S. government, is exempt from state and local taxes but not from federal tax. The general principle is that federal and state/local governments can impose taxes on their own level, but not at the other level. U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest.

The tax treatment of municipal bonds can be complicated. For example, some munis are considered private-purpose bonds because they finance projects that have a substantial benefit to private interests, and may be subject to federal income tax.

If you sell a municipal bond at a profit, you could incur capital gains taxes. Also, the principal value of bonds may fluctuate with market conditions. Bonds redeemed prior to maturity may be worth more or less than their original cost. Municipal bond funds are subject to the same inflation, interest rate, and credit risks associated with their underlying bonds. As interest rates rise, bond prices typically fall, which can adversely affect a bond fund's performance.

Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

Tax Planning

Taxability of Social Security Benefits

Social Security benefits have been subject to federal income tax since 1984, but only if income exceeds specific limits. Typically, benefits are taxed only if you have substantial income in addition to Social Security benefits. If your "combined income" exceeds the levels shown here, you may owe federal income tax on up to 50% or 85% of your Social Security benefits.

Taxable portion of benefits	Combined income: Single filer	Combined income: Married joint filer
0%	Under $25,000	Under $32,000
50%	$25,000 to $34,000	$32,000 to $44,000
85%	Over $34,000	Over $44,000

To potentially reduce the amount of tax on benefits, you would have to reduce your overall income or change the types of investments that are generating taxable income.

Consider the following scenarios for two married couples (filing jointly), both of whom have a $67,000 annual income. Each couple receives the same income from interest (CDs), dividends (stocks), tax-free bond interest, and IRAs. The only difference is that Couple 1 has taxable income from a traditional IRA and Couple 2 has tax-free income from a Roth IRA.

For Couple 1, all income from these sources is included in the calculation of "combined income" to determine the taxability of Social Security benefits. Because they are over the $44,000 income threshold for joint filers, they could owe taxes on up to 85% of their Social Security benefits.

For Couple 2, however, the Roth IRA income is excluded from the formula. Thus, their "combined income" is only $31,000, which is below the 50% threshold for taxing benefits. As a result, their Social Security benefits will not be taxed.

	Couple 1 (traditional IRA)	Couple 2 (Roth IRA)
Annual income:		
Interest income (CDs)	$ 5,000	$ 5,000
Dividend income (stocks)	$10,000	$10,000
Tax-free bond interest income	$ 5,000	$ 5,000
IRA income	$25,000	$25,000
Social Security benefit	$22,000*	$22,000*
Total annual income	**$67,000**	**$67,000**
"Combined income" for purposes of determining tax on benefits	**$56,000**	**$31,000**
Taxability of benefits	**85%**	**0%**

*Only $11,000 (half of each couple's Social Security benefits) is used in the formula for "combined income."

This hypothetical example is used for illustrative purposes only. Actual results will vary.

The IRS formula for "combined income" is adjusted gross income *plus* tax-exempt interest *plus* 50% of Social Security benefits.

Qualified distributions from Roth IRAs and HSAs are not included in determining whether benefits are taxable.

Higher-income beneficiaries may also be subject to higher Medicare premiums *(see page 35)*.

Tax Planning

How Taxes Affect Retirement

The more flexibility and discretion you have in planning your retirement income, the more significant these tax considerations are, and the more they should factor into your overall planning.

For example, it might make sense in some cases to delay claiming Social Security benefits, drawing income from taxable investment accounts and retirement plan accounts instead to provide the income level you want. Why? If 50% to 85% of your Social Security benefits are going to be taxed, you might be better off postponing benefits and drawing down other assets in your early retirement years. In addition to potential tax savings, you'll get a larger annual Social Security benefit.

If you have a Roth IRA or Roth employer plan account in addition to traditional plans, you might consider a retirement withdrawal plan that factors in overall tax minimization. Or if you believe that high RMDs from traditional IRAs and employer-sponsored plans after age 70½ will push you into a higher tax bracket or make Social Security benefits taxable, you might evaluate drawing down tax-deferred savings accounts in the earlier retirement years, or even evaluate a possible Roth IRA conversion.

State Income Taxes

Nine states have no income tax — Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming. For retirees, this means no state income tax on Social Security benefits, retirement plan withdrawals, and pension payouts.

Source:
Kiplinger, March 5, 2018

Other Major Changes in the Tax Cuts and Jobs Act

When you calculate your federal income tax, you generally have a choice between taking the standard deduction — a fixed dollar amount that's based primarily on your filing status — or itemizing allowable deductions on Schedule A of IRS Form 1040.

EITHER

Standard Deduction

Itemized Deductions

Standard Deduction and Personal Exemptions

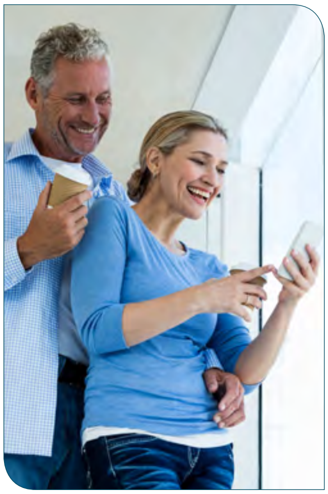
The Tax Cuts and Jobs Act roughly doubled prior standard deduction amounts and continued the additional standard deduction amounts for those who are blind and/or age 65 and older. However, the law eliminated the deduction for personal exemptions ($4,050 in 2017). That means a married couple with no children can no longer deduct $8,100 in personal exemptions ($4,050 x 2), but their standard deduction ($24,000 in 2018) is significantly higher than it was.

Standard Deduction Amounts

Filing status	2017	2018
Single or married filing separately	$6,350	$12,000
Head of household	$9,350	$18,000
Married filing jointly	$12,700	$24,000

The additional standard deduction amounts for those age 65+ and/or blind are $1,600 (single or head of household) and $1,300 for other filing statuses in 2018.

Changes in the standard deduction and personal exemptions are scheduled to expire after 2025.



Itemized Deductions

The alternative to taking the standard deduction is to itemize deductions on Schedule A of IRS Form 1040.

The overall limit on itemized deductions that used to apply to high-income taxpayers was repealed by the Tax Cuts and Jobs Act, and the following changes were made to individual deductions. *Note: These provisions are scheduled to expire after 2025.*

Medical expenses. The adjusted gross income (AGI) threshold for deducting unreimbursed medical expenses was temporarily reduced from 10% to 7.5% for tax years 2017 and 2018. In 2019, it's back to 10%.

Charitable contributions. The top AGI limitation percentage that applies to deducting certain cash gifts increased from 50% to 60%.

Miscellaneous itemized deductions. Miscellaneous itemized deductions that used to be subject to the 2% AGI threshold, including tax preparation expenses, unreimbursed employee business expenses, and investment expenses, are no longer deductible.

Casualty and theft losses. The deduction for personal casualty and theft losses was eliminated, except for casualty losses suffered in a federally declared disaster area.

Home mortgage interest deduction. Historically, homeowners were allowed to deduct up to $1 million (half of that for married couples filing separately) in *acquisition debt* — debt used to buy, build, or substantially improve a principal residence or a second home. The Tax Cuts and Jobs Act lowered the annual cap on deductible mortgage interest to $750,000, although mortgages taken out on or before December 15, 2017, are grandfathered under the prior $1 million limit.

Home equity interest deduction. Interest on home equity loans and home equity lines of credit used to buy, build, or substantially improve your main home or a second home (for example, funds used to finish a basement) remains deductible under the new rules. That's because such debt is considered *acquisition debt* and continues to be subject to the dollar limits on qualified mortgage debt. However, home equity loans and lines of credit not used to buy, build, or substantially improve your main home or second home (for example, funds used to buy a car) are considered *home equity debt*. Interest on home equity debt is no longer deductible under the new rules.

State and local taxes (SALT). Taxpayers are able to claim an itemized deduction of up to $10,000 ($5,000 if married and filing a separate return) for state and local property taxes and state and local income taxes (or sales taxes in lieu of income). Previously, there was no annual limit. This provision affects many people in high-tax states.

Fewer Taxpayers Expected to Itemize Deductions

Before enactment of the Tax Cuts and Jobs Act, about 30% of tax filers itemized deductions on their tax returns, according to the IRS. But the Tax Policy Center expects this to fall to about 10% for 2018 returns filed in 2019.

Source:
AARP, January 22, 2018

Roth IRA Recharacterizations

The Tax Cuts and Jobs Act closed a very popular planning option — the ability to recharacterize a Roth IRA conversion.

For example, let's say you had a $100,000 traditional IRA and converted it to a Roth IRA. You're going to have to pay tax on the conversion at ordinary income tax rates. Now consider that six months after the conversion, your Roth IRA is worth only $60,000, having lost 40% of its value. You're faced with paying income tax based on the conversion date value of $100,000 even though the Roth IRA is now worth only $60,000.

Before enactment of the Tax Cuts and Jobs Act, you could "undo" or recharacterize the conversion. It was as if the conversion never took place. Using the previous example, you would end up with a traditional IRA worth $60,000 and no income tax obligation. You wouldn't regain the value that was lost, but you could avoid paying the conversion tax.

This option is no longer available. Now a recharacterization cannot be used to "undo" a Roth conversion. However, you're still able to recharacterize a regular Roth IRA *contribution* that you make during the year. And you can still *convert* a traditional IRA to a Roth IRA. You just cannot recharacterize a conversion from a traditional IRA to a Roth IRA.

Roth IRA Five-Year Rule

If you withdraw any portion of the amount converted to a Roth IRA within five years, you may have to pay a 10% early-distribution penalty, unless you've reached age 59½ or qualify for an IRS exception.

The five-year holding period starts on January 1 of the year you convert assets to a Roth IRA. If you have more than one conversion, each has its own separate five-year holding period.

Corporate Tax Changes

Instead of the previous graduated corporate tax structure with four rate brackets (15%, 25%, 34%, and 35%), the Tax Cuts and Jobs Act permanently established a single flat corporate rate of 21%, which was effective starting in 2018.

The new legislation also permanently repealed the corporate alternative minimum tax (AMT).

Other Changes Worth Noting

Health insurance mandate. The Affordable Care Act individual responsibility payment — the penalty for failing to have adequate health insurance coverage — is permanently repealed starting in 2019.

Estate and gift tax exemption. The federal estate and gift tax exclusion amount doubled for tax years 2018 through 2025 (indexed annually for inflation), after which it returns to its 2017 inflation-adjusted level.

Alimony. Alimony and separate maintenance payments are no longer deductible by the paying spouse — and will not be included in income of the recipient — for divorces or separation agreements implemented after December 31, 2018.

Moving expenses. The moving expense deduction for a job-related move has been suspended through 2025, except for members of the Armed Forces on active duty.

529 plan enhancement. A 529 plan "qualified education expense" has been expanded to include tuition expenses associated with grades K–12, but such withdrawals are limited to $10,000 annually per student.

529 transfers to ABLE accounts. 529 account owners can roll over (transfer) funds from a 529 plan to an ABLE plan without federal tax consequences (expires after 2025).

Pass-through business income. For individuals who receive business income from pass-through entities (partnerships, S corporations, and sole proprietorships), a new deduction is available for tax years 2018 through 2025 equal to 20% of qualified business income, subject to some limitations, qualifications, and phaseouts.

"Bonus" depreciation. Bonus depreciation was extended to cover qualified property placed in service before January 1, 2027. For qualified property that's both acquired and placed in service after September 27, 2017, 100% of the adjusted basis of the property can be deducted in the year the property is first placed in service. The first-year 100% bonus depreciation amount is reduced by 20% each year starting in 2023 (falling to 80% in 2023, 60% in 2024, 40% in 2025, and 20% in 2026) until it is eliminated altogether beginning in 2027.

IRC Section 179 expensing. The Tax Cuts and Jobs Act increased the maximum amount of qualified property that can be expensed in 2018 from $520,000 to $1,000,000, and the threshold at which the maximum deduction begins to phase out from $2,070,000 to $2,500,000. Both the $1,000,000 and $2,500,000 amounts will be indexed for inflation after 2018.

Social Security

Income That Will Last a Lifetime

One of the greatest concerns of retirees and near-retirees is the fear of outliving their assets. Although traditional pensions once provided a steady income for many retirees, the number of companies offering such plans has declined dramatically.

Social Security offers benefits similar to a pension, plus a lot more. Not only does it provide a guaranteed income stream, but it also offers longevity protection, spousal protection, and even some inflation protection. Yet the ultimate value of Social Security benefits is often overlooked.

For example, did you know that if you delay claiming benefits past full retirement age, you could increase your payments by as much as 8% a year? It would be hard to find a risk-free investment that currently offers that kind of payout.

Whether you're single, married, divorced, or widowed, there are strategies that might increase the monthly and lifetime benefits you receive from Social Security. It is important to understand the claiming options that may be available to you — and to avoid costly mistakes that could reduce the Social Security income that you, and possibly your spouse, receive.

History Behind America's Retirement Safety Net

The Old-Age, Survivors, and Disability Insurance (OASDI) program, which is the official name of Social Security, was created as part of Franklin Delano Roosevelt's New Deal legislation during the Great Depression. It was signed into law in 1935 and is now the federal government's largest single program.

Social Security benefits were intended as a *supplement* for retirees, not as a sole means of support. But over time, many retirees — as well as some disabled individuals and families of deceased workers — have become very dependent on their monthly Social Security payments.

- Social Security is the *single largest source* of retirement income for 62% of retirees

Source: Social Security Administration, 2017

Claiming Strategies

There are many combinations for how a married couple can claim Social Security retirement benefits and spousal benefits, as well as other filing strategies.

According to the Social Security Administration, the claiming-age combinations that married couples might choose range from nearly 10,000 to 40,000, depending on their respective birth years.

Social Security

To create a *my* Social Security account and view your Social Security Statement online, visit ***ssa.gov/myaccount/***.

Who Is Eligible for Social Security Benefits?

If you have worked and accumulated a minimum of 40 work credits, which is 40 fiscal quarters or about 10 years of work, you are entitled to receive Social Security retirement benefits.

Your benefit is based on an average of the highest 35 years of earnings in which you paid Social Security payroll taxes.

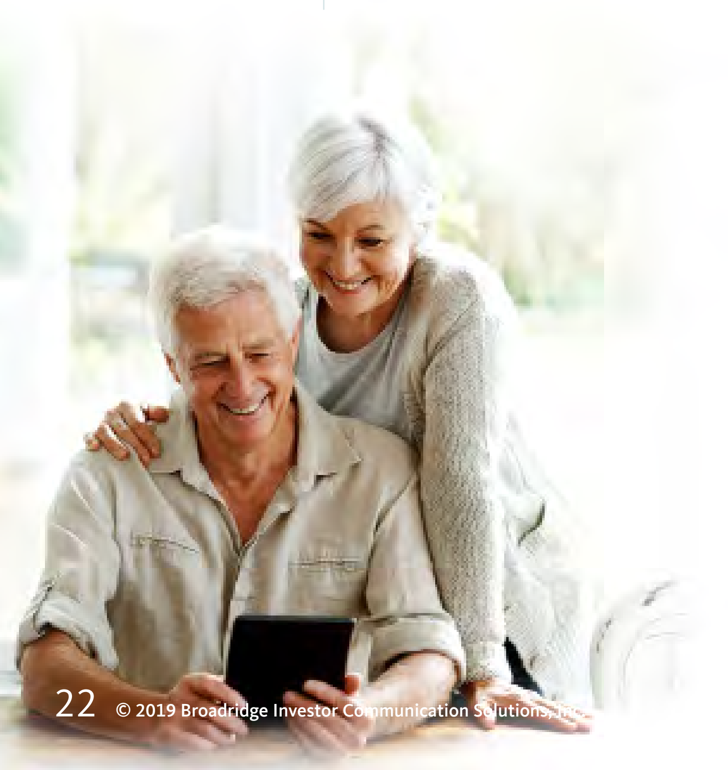
If you worked fewer years, worked part-time, or had long periods of unemployment, the years in which you had low or zero earnings will be averaged into the calculation and could affect your benefits.

- The spouse of an eligible worker can collect Social Security spousal benefits regardless of whether he or she worked or not
- Even the former spouse of an eligible worker may be entitled to Social Security benefits based on the ex's work record if they were married for at least 10 years and the individual has not remarried
- The surviving spouse of an eligible worker is eligible for survivor benefits

Social Security Statement

Your Social Security Statement summarizes your annual earnings that were subject to payroll taxes, shows how much you and your employer(s) paid in Social Security and Medicare taxes, and estimates your retirement benefits based on retiring at age 62, full retirement age, and age 70.

You can view your Statement online by creating your own personal account on the Social Security website. Even after you start receiving benefits, an online personal account can be helpful. You can access your account to print Social Security and Medicare benefit information, update your address, and change your direct deposit data.



Social Security

Understanding COLAs

Because Social Security benefits are indexed for inflation, your monthly benefit could increase as the cost of living rises from year to year. Thanks to these cost-of-living adjustments (COLAs), some people refer to Social Security as an inflation-protected asset that will help maintain the purchasing power of those benefits.

Under the current system, the automatic COLA is equal to the annual percentage increase — if any — in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W).

Since 1975, the average annual COLA has been about 3.9%. Social Security beneficiaries have received a COLA almost every year since 1975, but there was no COLA for 2010, 2011, or 2016 because inflation was too low to trigger an increase. After factoring in the 2019 COLA, the average monthly benefit for a retired worker will be $1,461.

Year	COLA
2009	5.8%
2010	0%
2011	0%
2012	3.6%
2013	1.7%
2014	1.5%
2015	1.7%
2016	0%
2017	0.3%
2018	2.0%
2019	2.8%

Source: Social Security Administration, 2018

When Can You Claim Social Security Retirement Benefits?

Security benefits are based on how much you earned during your working career and the age when you start claiming benefits.

62 — **Age 62** is the earliest age to claim benefits. *(Surviving spouses, however, can claim survivor benefits as early as age 60).*

FRA — **Full retirement age (FRA)** ranges from 66 to 67, depending on year of birth.

70 — **Age 70** is when you can receive your *maximum* Social Security retirement benefit.

Claiming Ages

The most prevalent age for claiming Social Security benefits is 62. Only about 3% of men and 5% of women delay claiming benefits until age 70 or older.

Source:
Social Security Administration, 2017 (2016 data)

Social Security

How Does Filing Early or Later Affect the Monthly Benefit?

Many people automatically associate age 65 with retirement. But full retirement age (FRA), when you are entitled to receive 100% of your full retirement benefit — also called the primary insurance amount or PIA — now ranges from 66 to 67 for those born after 1942.

You can see here how full retirement age is changing based on year of birth, and how claiming Social Security early at age 62 or delaying benefits up to age 70 would affect your monthly payouts.

Year of birth	Full retirement age (FRA)	Age 62 benefit	FRA benefit	Age 70 benefit
1943–54	66	75.00%	100%	132.00%
1955	66 and 2 months	74.17%	100%	130.67%
1956	66 and 4 months	73.33%	100%	129.33%
1957	66 and 6 months	72.50%	100%	128.00%
1958	66 and 8 months	71.67%	100%	126.67%
1959	66 and 10 months	70.83%	100%	125.33%
1960 & later	67	70.00%	100%	124.00%

At age 62, the amount you receive each month would be permanently reduced by 25% to 30% of the full retirement age amount, depending on the year you were born. With each month you wait to claim benefits after age 62, your monthly benefit increases slightly.

By electing to start retirement benefits at your full retirement age, you would be entitled to 100% of your primary insurance amount.

For each month you wait to claim Social Security *after* reaching full retirement age, your monthly benefit would continue to increase until you reach age 70, when you would be entitled to receive up to 132% of your full benefit (depending on year of birth). By waiting past full retirement age, you earn delayed retirement credits. There is no advantage to waiting longer than age 70 to file for benefits.

Dependent Benefits

If you're receiving Social Security retirement benefits, your unmarried children who are under age 18 (or up to age 19 if your child is a full-time student who has not graduated from high school) may be eligible to collect Social Security dependent benefits based on your earnings record.

Social Security

How Claiming Age Affects Monthly and Annual Benefits

Here are some hypothetical examples to put some dollar amounts behind these benefit percentages for two people born in different years.

	Claiming age	Benefit percentage	Monthly benefit	Annual benefit
Todd	62	73.33%	$1,467	$17,604
	FRA (66 + 4 months)	100%	$2,000	$24,000
	70	129.33%	$2,587	$31,044
Marian	62	70%	$1,680	$20,160
	FRA (67)	100%	$2,400	$28,800
	70	124%	$2,976	$35,712

Todd was born in 1956. His full retirement age is 66 and 4 months, when he would be entitled to a $2,000 full monthly benefit. If Todd claimed his worker benefit at age 62, it would be permanently reduced to 73.33% of the primary insurance amount. So a monthly benefit that would have been $2,000 at full retirement age would be reduced to about $1,467 if he claimed it at age 62. On the other hand, if Todd delayed claiming his worker benefit until age 70, it would be 129.33% of his primary insurance amount, or $2,587 per month.

Marian was born in 1960. Her full retirement age is 67, when she would be entitled to a $2,400 full monthly benefit. If Marian claimed her worker benefit at age 62, it would be permanently reduced to 70% of the primary insurance amount. So a monthly benefit that would have been $2,400 at full retirement age would be reduced to about $1,680 if she claimed it at age 62. On the other hand, if Marian delayed claiming her worker benefit until age 70, it would be 124% of her primary insurance amount, or $2,976 per month.

You can also see that on an annual basis, these percentage differences can add up and significantly affect retirement income.

This hypothetical example is used for illustrative purposes only. Actual benefits and results will vary.

How Claiming Age Affects Lifetime Benefits

Your decision on when to file for Social Security should be based on a combination of factors, including your health, life expectancy, work situation, retirement goals, and other sources of income.

If you delay filing for Social Security, you might increase not only your monthly benefits but also your lifetime benefits, depending on how long you live.

For some individuals, working longer and claiming benefits later may provide the most Social Security income over their lifetimes. Others may not have a choice because they need the income at an earlier age. And people who don't live as long might receive more Social Security income over their lifetimes by collecting benefits at an earlier age.

If your health is good, you are working, and you have family members who have lived well into their 80s and 90s, delaying benefits could provide you with greater lifetime Social Security benefits.

Social Security

Spousal Benefit

Married individuals are eligible to receive a Social Security benefit based on their own earnings history or a spousal benefit based on the spouse's primary insurance amount. *(This is also true for unmarried, divorced individuals who were married for at least 10 years.)*

If you're married, you can claim a spousal benefit whether you have worked or not. But in order to qualify for the spousal benefit, you must be at least age 62, you must have been married for at least one year, and your spouse must have filed for Social Security benefits. *(An eligible, unmarried divorced spouse does not have to wait until his or her ex files for benefits, but the ex must be at least age 62.)*

If you elect to receive a spousal benefit before you reach full retirement age, you would receive a permanently reduced amount, unless you are caring for a qualifying child. The benefit reduction is based on *your* age when you claim the spousal benefit.

If you claim the spousal benefit upon reaching your full retirement age, the benefit would be one-half of your spouse's primary insurance amount (PIA).

The spousal benefit is never higher than 50% of the primary worker's full benefit. So, for example, if your spouse's PIA is $2,400, you could receive a $1,200 monthly spousal benefit by claiming it at your full retirement age.

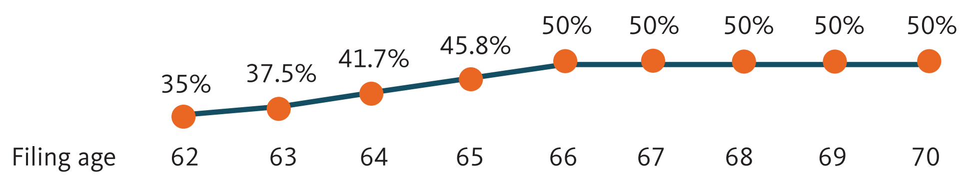
Excess Spousal Benefit

If you file for Social Security retirement benefits before reaching full retirement age and later qualify for a spousal benefit, the combined benefit might be lower than what the spousal benefit would have been had you waited until your spouse filed or you reached full retirement age.

This is often referred to as the *excess spousal benefit*, and it comes into play when your PIA is less than half of your spouse's PIA.

How Claiming Age Affects the Spousal Benefit

This chart shows how the Social Security spousal benefit would be affected by claiming it at different ages.



Assumes a full retirement age of 66. The percentages for the spousal benefit are based on the primary worker's full benefit amount.

Because the spousal benefit is based on the primary worker's PIA, the maximum spousal benefit is 50% of the worker's PIA. So a spousal benefit claimed at age 62 would be only 35% of the spouse's PIA instead of 50%.

Here's a hypothetical example that assumes the PIA of the primary worker is $2,000. The maximum spousal benefit would be 50% of that, or $1,000, if claimed at full retirement age (or later). If the spousal benefit was claimed at age 62, it would be reduced to $700, which is 35% of the primary worker's PIA. That's a difference of $300 per month or $3,600 a year!

As you can also see, there's really no advantage to waiting longer than full retirement age to claim the spousal benefit.

"Restricted Application" for Spousal Benefit

Americans who were born on or before January 1, 1954, are eligible to file a "restricted application" for the spousal benefit when they reach full retirement age. This strategy enables them to receive spousal benefits while earning delayed retirement credits on their own work records, which would increase their worker benefit by about 8% for each year they delay claiming. Later they could switch from the spousal benefit to this potentially higher worker benefit amount, which would reach its maximum value when they reach age 70.

Eligible individuals can file a restricted application for spousal benefits even if the individual's spouse claimed benefits before reaching his or her full retirement age.

Remember that to be eligible for a restricted application for the spousal benefit, your spouse must have filed for Social Security benefits and you must have reached full retirement age. This is critically important, because if you attempt to do this before full retirement age, you will **not** be able to switch to your own worker benefit at a later date and you will be stuck with a permanently lower spousal benefit.

The Bipartisan Budget Act of 2015 effectively eliminated the restricted application for spousal benefit strategy, except for those grandfathered under the old rules.

Currently, married individuals applying for benefits (based on their own earnings or the earnings of a spouse) will be deemed to be filing an application for the highest benefit to which they are eligible. In other words, no one will be able to apply for spouse-only benefits and change to a higher worker benefit later.

This change is effective for individuals who were born after January 1, 1954.

Survivor Benefit

Widows and widowers have dual entitlements under Social Security — benefits based on their own earnings history or survivor benefits based on the deceased spouse's earnings record. *This is also true for qualified divorced individuals who were married to the deceased ex-spouse for at least 10 years.*

To claim a survivor benefit, you must have been married for at least nine months. The survivor benefit amount is based on the earnings record of the spouse who died.

Unlike spousal benefits, survivor benefits reflect any delayed retirement credits. So if the spouse worked past full retirement age, the survivor benefit would be based on the deceased spouse's PIA and any delayed credits he or she might have earned. However, if the spouse died early, the survivor benefit would be worth up to 100% of what he or she was entitled to collect at the time of death.

You are eligible for a reduced survivor benefit as early as age 60 or a full survivor benefit (100% of the deceased's worker benefit amount) once you reach full retirement age. *Surviving disabled spouses and those with young children may have additional options.*

One important point: If your spouse dies and you remarry *before* reaching age 60, you will forfeit your late spouse's Social Security benefits while you are married. If you remarry *after* reaching age 60, you will continue to qualify for survivor benefits based on your deceased spouse's Social Security record, or you could apply for spousal benefits based on your current spouse's work history. If the spousal benefit based on the current spouse is higher than the survivor benefit, you would receive a combination of benefits that equals the higher amount.

Switching from a Worker Benefit to a Survivor Benefit

If your spouse dies, you could claim a survivor benefit once you're eligible and later switch to one based on your own work record — or you could claim a benefit based on your own work record and later switch to a survivor benefit at full retirement age if that benefit would be higher. *This may also be the case for an ex-spouse who was married to the deceased for at least 10 years.*

If you will also receive a traditional pension based on work that was not covered by Social Security, your Social Security benefits as a survivor could be affected.

If you continue working while collecting Social Security benefits and have not reached full retirement age, your benefit may be reduced if your earnings exceed specific limits.

If you are eligible to receive a survivor benefit as well as a benefit based on your own work history, you might compare these two claiming strategies to determine which one might enhance the total benefits you could receive:

1. Start survivor benefit as early as age 60 and switch to your own retirement benefit at FRA or later
2. Start your own retirement benefit starting as early as age 62 and switch to a survivor benefit at your FRA

For example, if your spouse died at a young age, you could start receiving survivor benefits as early as age 60. But you won't receive 100% of his or her basic benefit if you claim a survivor benefit before you reach your full retirement age — the benefit will be permanently reduced to 71.5% to 99% of the basic benefit.*

Consider what the survivor benefit would be if you claimed it early or if you waited until you reach full retirement age. Then compare it to the retirement benefit you might receive based on your own work history. You might discover that you could receive more if you claim a survivor benefit early and later switch to one based on your own work history at full retirement age or later. Or you might find that you should start your own retirement benefit as early as age 62 and later switch to a survivor benefit once you reach full retirement age, when it would be higher.

Because each couple's situation will be different, you need to review your options carefully.

*Note: Anyone born from 1945 through 1956 is entitled to a full survivor benefit starting at age 66, even if FRA is several months later.

Maximizing Lifetime and Survivor Benefits

There are thousands of different combinations for how a married couple can claim Social Security. This hypothetical example focuses on three different claiming strategies, and how a couple could maximize their lifetime Social Security income. Because women tend to live longer than men, the impact on a wife's survivor benefit could be significant if her spouse is the higher earner and he predeceases her.

Paul and Janet are 62 years old and have been married for 35 years. If they both wait until full retirement age (66) to claim Social Security, Paul would receive $2,000 a month and Janet would receive $1,800 based on their individual earnings histories. If they claim benefits early at age 62, Paul would receive $1,500 a month and Janet would receive $1,350.

These three scenarios show the impact on their combined monthly and lifetime Social Security benefits, assuming Paul dies at age 80 and Janet dies at age 90.

Scenario 1 Both Janet and Paul claim benefits at age 62	**Scenario 2** Janet claims at age 62, Paul waits until age 66	**Scenario 3** Janet claims at age 62, Paul waits until age 70
Combined monthly benefits: Years 1+: $2,850	Combined monthly benefits: Years 1 to 4: $1,350 Years 5+: $3,350	Combined monthly benefits: Years 1 to 8: $1,350 Years 9+: $3,990
Paul dies at age 80		
Total benefits: $615,600	Total benefits: $627,600	Total benefits: $608,400
Monthly survivor benefit: $1,500	Monthly survivor benefit: $2,000	Monthly survivor benefit: $2,640
Janet dies at age 90		
Lifetime benefits: $795,600	Lifetime benefits: $867,600	Lifetime benefits: $925,200

This hypothetical example is used for illustrative purposes only. Actual situations will vary.

The first scenario shows the impact if both claim Social Security at age 62, the second scenario shows the result if Janet claims at 62 and Paul waits until age 66 (full retirement age), and the third shows the result if Janet claims at 62 and Paul waits until age 70 to receive his maximum $2,640 benefit.

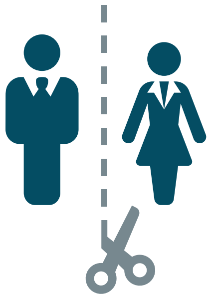
If Paul dies at age 80, Janet's monthly survivor benefit would be only $1,500 under the first scenario, $2,000 under the second, and $2,640 under the third (annual amounts are $18,000, $24,000, and $31,680, respectively). Although the couple's combined benefits at the time of Paul's death would be highest under the second scenario, the third scenario would provide the highest lifetime benefits if Janet were to live to age 90.

Living into Your 90s

More than one in three 65-year-olds today will live to age 90, and more than one in seven will live to age 95.

Source: Social Security Administration, 2017

The Impact of Divorce



A divorced spouse may be able to collect Social Security benefits based on a former spouse's work history, whether the ex is living or deceased.

If you were married for at least 10 years to a fully insured worker, have attained the minimum age required, and are unmarried, you are entitled to Social Security benefits based on your ex-spouse's work record as long as you aren't eligible for a higher benefit based on your own work history. This won't affect the benefits that your ex-spouse receives, even if he or she has remarried.

Note: If you remarry, you cannot collect benefits on a former spouse's record unless your marriage ends (by death, divorce, or annulment). And as is the case with a current spouse, if you were born after January 1, 1954, when you file for Social Security benefits, you will be deemed to be applying for the maximum benefit to which you are entitled — a spousal benefit or a worker benefit.

If your ex is living and you meet the criteria, you can receive Social Security spousal benefits starting at age 62 as long as your former spouse is entitled to receive Social Security retirement or disability benefits. The *maximum* benefit you can receive would be 50% of your ex's PIA if you claim the spousal benefit at your full retirement age. If you claim a spousal benefit before reaching full retirement age, you will receive a permanently reduced benefit.

If your former spouse is eligible for but has not applied for Social Security benefits, you can still receive a spousal benefit if you have been divorced for at least two years; this waiting period does not apply if your ex is already receiving benefits. And even if your former spouse has suspended his or her benefit, you are still able to receive spousal benefits during the suspension period.

If your ex is deceased and you were married to him or her for at least 10 years, you can receive survivor benefits just like a widow or widower starting at age 60. This benefit will be reduced if you claim it prior to reaching full retirement age. However, if you are caring for a deceased ex's child (under age 16), you may be entitled to benefits regardless of your age or the length of your marriage.

Note: If you remarry before you reach age 60, you cannot receive benefits as a surviving ex-spouse while you are married. However, remarriage after you reach age 60 will not affect your eligibility for survivor benefits.

Upswing in "Gray" Divorces

The divorce rate for baby boomers has doubled since the 1990s.

Source:
Pew Research Center, 2017

Social Security

How to Receive Retroactive Benefits

If you postpone benefits past full retirement age, you can request a:

- Lump-sum payment for up to 6 months of retroactive benefits

The tradeoff of this little-known opportunity is that it reduces your monthly benefit for the rest of your life. Your future benefit would be based on the lower monthly amount that would have been established at the earlier date.

Requesting retroactive benefits might be helpful if you face a change in health or other situation that makes it more important to claim an initial lump sum than to receive a higher monthly benefit going forward.

Here's an example: Someone filing for Social Security at age 68 who is eligible for a $2,320 monthly benefit could choose to take a $13,440 lump sum — six months of retroactive benefits — and a lower monthly lifetime benefit of $2,240 (the amount he or she would have received at age 67 and 6 months).

Individuals who filed and suspended retirement benefits on or before the April 29, 2016, deadline can still request a lump-sum payment of more than six months of retroactive benefits — equal to the benefits they would have received since the suspension date.

Retroactive benefits are not available for any month before full retirement age.

Beneficiary Growth

The number of Americans collecting Social Security benefits is expected to grow from about 63 million today to 88 million by 2035.

Source: Social Security Administration, 2017–2018

"Do Over" or "Reset" Strategy

This strategy might be appropriate if you filed for early Social Security benefits before reaching full retirement age and later regret taking a permanently reduced benefit. This also has the potential to benefit your surviving spouse, who might be eligible to claim a survivor benefit based on a higher amount.

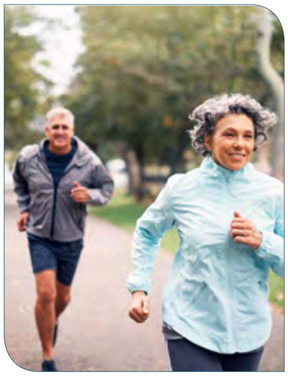
- Available only once in your lifetime
- Application to withdraw benefits must be made within 12 months of making original claim for benefits
- Must repay all benefits you and your family have received

To reset your benefit, you need to fill out and file Social Security Form 521, *Request for Withdrawal of Application*, noting the reason why you want to withdraw the application to benefits on the form. The Social Security Administration will respond to your request and notify you of the amount of benefits that need to be repaid. You have only 60 days to cancel an approved withdrawal.

Once this process has been approved and completed, you will be able to reapply for Social Security benefits at a future date. If you wait until full retirement age to reapply, you would receive your "full" benefit amount, and if you wait until age 70, you could receive your maximum benefit.

Social Security

"Start, Stop, Restart" Strategy



An additional strategy you might use if you regret claiming early Social Security benefits (before reaching full retirement age) might be called "start, stop, restart." It involves voluntarily suspending current benefits and restarting them at a future date. To utilize this strategy, you must have reached full retirement age or later.

Here's an example: Mike lost his job and claimed early Social Security benefits at age 63 — three years before his full retirement age — because he needed the income. A couple of years later he is working again and no longer needs Social Security benefits for current income, but he'd like to increase the benefit that he could receive when he leaves the workforce on a permanent basis.

Once Mike reaches his FRA (66), he could ask Social Security to suspend future benefits and have them restarted at a future date. Delayed retirement credits would accrue during the time when those benefits have been suspended. If he suspends benefits at age 66 and waits until age 70 to restart, his benefit could be 32% higher for the rest of his life.

Keep in mind that unless you suspended Social Security benefits before May 1, 2016, your spouse will not be eligible to receive spousal benefits during the time when your benefits are suspended. Nor would an eligible dependent child be able to receive dependent benefits during the suspension period.

Suspending Benefits

Suspended benefit payments will start automatically for the month you reach age 70, unless you notify the Social Security Administration that you want them reinstated earlier.

Other Factors That Could Reduce Your Social Security Payments

When calculating your future income needs in retirement, you might be factoring in your Social Security benefit based on the estimates in your Social Security Statement. But did you know that many things could reduce the actual payments you receive?

These five factors could result in smaller monthly Social Security payments than you might have expected:

1. **Taxes**
2. **Retirement earnings test**
3. **Windfall elimination provision**
4. **Government pension offset**
5. **Medicare premiums**

A Percentage of Your Social Security Benefits Could Be Taxed

As mentioned earlier, if your "combined income" exceeds specific levels, 50% or 85% of your Social Security benefits will be taxable. The IRS calculates "combined income" as adjusted gross income plus any tax-exempt interest (which could be interest from municipal bonds and savings bonds) plus 50% of your Social Security benefits.*

Thus, if you receive significant income in addition to your benefits — such as dividends, rental income, and distributions from traditional IRAs and employer-sponsored retirement plans — your "combined income" could easily exceed the annual limits.

Single filer: If your combined income is over $25,000 but does not exceed $34,000, up to 50% of your Social Security benefits may be taxable. If your combined income exceeds $34,000, up to 85% of your benefits may be taxable.

Married joint filer: If your combined income is over $32,000 but does not exceed $44,000, up to 50% of your Social Security benefits may be taxable. If your combined income exceeds $44,000, up to 85% of your benefits may be taxable. If you are married but file a separate tax return, 85% of all your Social Security benefits may be taxable.

*Interest paid on municipal bonds issued by your state or local government is typically free of federal income tax. If a bond was issued by a municipality outside the state in which you reside, the interest could be subject to state and local income taxes. If you sell a municipal bond at a profit, you could also incur capital gains taxes. The principal value of bonds may fluctuate with market conditions. Bonds redeemed prior to maturity may be worth more or less than their original cost. Some municipal bond interest could be subject to the federal alternative minimum tax..

About 40% of current beneficiaries pay taxes on their Social Security benefits.

Source:
Social Security Administration, 2017

Retirement Earnings Test (RET)

You can receive Social Security benefits and still earn wages from a job or self-employment, but if you do so prior to reaching full retirement age, your benefits could be reduced by the retirement earnings test.

- When this occurs, $1 in benefits will be deducted for each $2 you earn above the annual threshold, which is $17,640 in 2019
- In the calendar year in which you reach full retirement age, $1 in benefits will be deducted for each $3 you earn above a higher annual limit ($46,920 in 2019) until your birthday month
- Starting in the month you reach full retirement age, there is no reduction of benefits if you continue working

These earnings limitations apply only to wages earned through employment and not to investment income such as interest or dividends.

The Social Security Administration may withhold benefits as soon as it determines your earnings are on track to surpass the annual limit. The estimated amount will typically be deducted from your monthly benefit in full, which could result in your not receiving any Social Security benefits for one or more months before benefits resume again.

The RET is not considered a penalty because your benefit will be recalculated after you reach full retirement age, and you will receive credit for any benefits you did not receive because of your earnings.

Social Security

Medicare Coverage

Medicare generally covers only about 60% of the cost of health-care services for beneficiaries age 65 and older.

Out-of-pocket costs may include premiums, deductibles, copays, and coinsurance. Costs vary depending on the coverage you choose and the medical services you use.

Source: Employee Benefit Research Institute, 2017

Windfall Elimination Provision (WEP)

If you receive a pension that was earned while not paying Social Security payroll taxes (noncovered employment), it could reduce the Social Security benefit you might have been counting on.

The WEP may apply to public-sector employees in some states, employees of nonprofit organizations, workers in foreign countries, and federal workers hired before January 1, 1984.

The amount of the WEP benefit reduction depends on the year you turn 62, referred to as the "eligibility year," and the number of years in which you had "substantial earnings" and paid into Social Security. The maximum potential reduction applies to workers who paid Social Security taxes for 20 years or less. The reduction amount is phased out from 21 to 30 years of substantial earnings. This table shows the maximum monthly amounts that benefits can be reduced.

Eligibility year (age 62)	Max. reduction amount
2010	$380.50
2011	$374.50
2012	$383.50
2013	$395.50
2014	$408.00
2015	$413.00
2016	$428.00
2017	$442.50
2018	$447.50

The reduction cannot be more than one-half of your pension from noncovered employment. Because the WEP reduces your Social Security primary insurance amount (PIA), spousal and dependent benefits based on your PIA could also be reduced. The WEP does not affect survivor benefits.

Note: If Social Security retirement benefits start after full retirement age, or your noncovered pension starts later than your eligibility year, the WEP reduction may be greater than the maximum amounts here.

Government Pension Offset (GPO)

The GPO affects spouses and widows or widowers who receive pensions from a federal, state, or local government based on work in which they didn't pay Social Security taxes (noncovered employment). When this happens, the GPO could reduce Social Security spousal or survivor benefits by two-thirds of the amount of the pension.

Here's a hypothetical example: Julie receives a $900 monthly government pension from noncovered employment and is eligible for a $1,000 monthly spousal benefit, which would be reduced by the GPO:

$1,000 – $600 [$900 pension x 2/3] = $400

As a result of the GPO, she would receive only $400 per month from Social Security. Combining this amount with her full pension, her combined monthly benefit would be $1,300. If two-thirds of a government pension is more than the Social Security benefit, the benefit could be reduced to zero.

This hypothetical example is used for illustrative purposes only. Actual situations and results will vary.

Medicare Premiums

Once you reach age 65 and enroll in Medicare, your monthly premiums could lower the Social Security payments you will receive.

- Medicare premiums are deducted automatically from monthly payments if you are receiving Social Security benefits
- Part B premiums are based on the adjusted gross income reported on your tax return from *two years prior* to the plan year
- Higher-income individuals pay higher Medicare premiums

Although Medicare Part A hospital insurance is premium-free for most Americans, monthly premiums apply to Medicare Part B medical insurance, which helps cover physician services, inpatient and outpatient medical services, outpatient hospital care, and diagnostic tests.

Private plans offering Medicare Advantage Part C, Medicare Part D prescription drug coverage, and Medigap coverage have different ways to pay premiums that vary by provider, but might also include the option of having premiums withheld from your Social Security payments.

2019 Medicare Costs

Medicare has some fairly stiff deductibles, copays, and limitations. This table illustrates basic costs for the Original Medicare program for 2019.

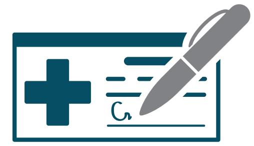
Part A monthly premium (for those who pay a premium)	$240 or $437
Part A deductible	$1,364 for each benefit period
Part B monthly premium (for lower-income beneficiaries)	$135.50 (standard premium) (people protected by hold-harmless provision may pay less)
Part B monthly premium (for higher-income beneficiaries)	$189.60 to $460.50
Part B annual deductible	$185

If you or your spouse did not pay Medicare payroll taxes for at least 10 years, you are subject to a Part A premium. The $240 monthly premium would apply if you paid payroll taxes for at least 7.5 years but not 10 years. The $437 monthly premium would apply if neither you nor your spouse paid payroll taxes for at least 7.5 years. The standard Part B premium is $135.50 for single filers who have an adjusted gross income of $85,000 or less and for married joint filers with an AGI of $170,000 or less.

A small group of Social Security beneficiaries protected by the “hold harmless provision” will pay less for Part B if their COLA is not large enough to cover the full premium increase. High-income earners and new enrollees in Medicare are not protected by the hold-harmless provision.

If you are enrolled in a Medicare Advantage Part C plan, you typically pay a monthly premium for Medicare Advantage *in addition* to your Part B premium.

Source: Centers for Medicare & Medicaid Services, 2018



Medicare Surcharge

Higher-income beneficiaries may be subject to a Medicare surcharge, called the income-related monthly adjustment amount (IRMAA).

However, if your income falls as the result of a life-changing event (such as retirement or widowhood) and the change makes a difference in the income level used to determine IRMAA, you can request that the Social Security Administration remove or reduce the surcharge.

For more information on rules for higher-income beneficiaries, visit ***ssa.gov/pubs/EN-05-10536.pdf***.

Social Security

Whether you are enrolled in Medicare or plan to enroll in the future, you might consider these options to help manage out-of-pocket costs: Medicare Supplement Insurance (Medigap), Medicare Advantage (Part C), and Medicare Prescription Drug Coverage (Part D). They are offered by private, Medicare-approved insurance companies.

One common misconception about Medicare is that it will help pay for care in a nursing home. It's important to understand that Medicare does *not* pay for long-term custodial care.

When Should You Enroll in Medicare?

To avoid penalties, you should enroll in Medicare during your initial enrollment period, which starts three months before the month you turn 65 and ends three months after the month you turn 65. Depending on when you enroll, coverage will start on the first day of the month indicated here.

If you enroll during the...	Coverage starts the...
Three months before the month you turn 65	Month you turn 65*
Month you turn 65	First month after enrollment
First month after you turn 65	Second month after enrollment
Second or third month after you turn 65	Third month after enrollment

*If your birthday is the first day of the month, coverage will begin on the first day of the month before you turn 65.

There is also a general enrollment period when you can sign up for Medicare Part A and/or Part B if you didn't do so when you were first eligible. It ranges from January 1 to March 31 each year. Coverage would begin on July 1. However, you may have to pay a higher premium for late enrollment.

If you are covered under a group health insurance plan based on your current employment (or your spouse's employment), you don't have to sign up for Medicare during the initial enrollment period shown here. You can enroll at any time you have other health coverage without paying a penalty, as well as during the eight-month period that begins the month after employment ends or your group health coverage ends *(whichever comes first)*.

The penalty for late enrollment can be steep. If you did not sign up for Medicare Part B when you were first eligible, you might have to pay a late-enrollment penalty *for as long as you have Medicare*. Your monthly premium for Part B could go up 10% for each full 12-month period that you could have had Part B but didn't sign up.

Uncertain Future of America's Retirement Safety Net

Social Security should have sufficient resources to pay 100% of scheduled benefits until 2034. Once the trust fund reserves are exhausted, payroll tax revenues may be sufficient to cover only about 77% of scheduled benefits initially, but the percentage will decline to 73% by 2091 (based on the current formula).

Although it is unlikely that Social Security will go away, this widely popular program faces an uncertain future. In 1950, as the baby boom was just beginning, there were 16.5 active workers for each Social Security beneficiary. Currently, there are 2.8 workers per retiree. And it's projected that by 2035, the ratio will fall to 2.2 workers for each beneficiary.

The program's projected financial shortfalls, combined with the federal government's budget deficits and growing national debt, suggest that it is highly likely that Social Security will undergo some major changes in the coming years.

Source: Social Security Administration, 2017

Income Strategy

What Happens When You Retire?

- Financial focus shifts
- Change from *accumulating* assets to *withdrawing* assets
- Need to generate a steady income while maintaining principal

Your primary objective is to live your desired lifestyle without running out of money.

Lifestyle

Depending on your vision for retirement and other factors, such as your health and any debt you carry, you could need anywhere from 70% up to even 100% of your pre-retirement income to live comfortably in retirement.

Three Steps to Developing an Income Strategy

There are three important steps to developing a retirement income strategy.

1. **Size up current situation and sources of income** — examining your lifestyle choices and the sources of income that are available to you
2. **Refine your investment mix** — balancing your needs for both income and continued growth throughout your retirement
3. **Determine a plan for tapping your retirement assets** — one that will help your money last as long as you do

Size Up Current Situation

To size up your current situation, you'll need to answer some questions:

- **How do you want to spend your retirement?**
  Do you know where you will live?
  Do you envision taking at least one major trip each year?
  If you have more leisure time, what hobbies and activities will you pursue?
- **How will you support your desired standard of living?**
- **What will you do if you haven't built the nest egg you need?**
  Can you postpone retirement and work longer?
  Is there time to increase your assets by saving more and continuing to pursue investment growth?
  Will you need to modify your lifestyle in order to make ends meet?

Hopefully, the choices you have made in the past will enable you to live the lifestyle you have envisioned. Yet it's also important to remember that the choices you make *when* you retire will play a significant role in how you spend your retirement years.

Income Strategy

Size Up Sources of Retirement Income

- Pension
- Employment earnings
- Personal savings and investments

Some retirees are still fortunate enough to have a pension. If you do have a pension, you'll want to consider how this guaranteed income works into your overall strategy, paying particular attention to how it might affect your tax situation.

For the vast majority of us, however, traditional pensions are a workplace benefit of the past. They have been replaced by employer-sponsored retirement plans, such as 401(k) plans, which typically require you to be responsible for your own savings and investment decisions.

Less Reliance on Pensions

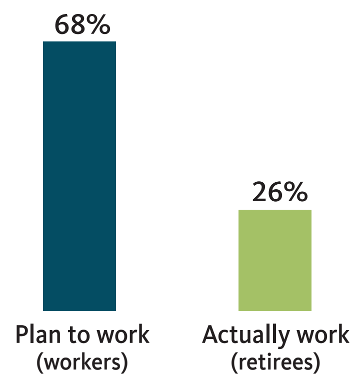
Even though fewer companies are offering traditional pensions, it's somewhat surprising that 32% of workers still expect a pension to play a significant role in their retirement income.

Source: Employee Benefit Research Institute, 2018

"I'll Just Keep Working"

Does this sound familiar? If you plan to fall back on continued employment during retirement, consider that many retirees leave work earlier than planned due to health issues or other unforeseen circumstances, such as a layoff.

A 2018 survey revealed that even though 68% of workers expect to earn a paycheck in retirement, only 26% of retirees were actually working for pay.



Also keep in mind that if you claim Social Security benefits before reaching full retirement age and continue to work, your benefits will be reduced if your earnings exceed certain limits. And regardless of when you claim benefits, if you earn more than a certain amount, your Social Security benefits could become taxable, up to certain limits. There's a lot to think about when it comes to working in retirement.

Source: Employee Benefit Research Institute, 2018

Income Strategy

Personal Savings and Investments

- Tax-advantaged vehicles
- Taxable vehicles

For most of us, personal savings and investments will make up the bulk of our retirement income. You might save for retirement using tax-advantaged vehicles such as employer-sponsored retirement plans and IRAs. Using these savings vehicles, you can invest in a variety of stocks, bonds, cash alternatives, mutual funds, and exchange-traded funds (ETFs). You might also consider purchasing an annuity to provide supplementary retirement income.

You might also invest in taxable vehicles, typically securities purchased through brokerage accounts outside of retirement plans. Interest from CDs and bank savings accounts is also taxable.

When you retire, you'll be making decisions about what to do with the assets you currently hold. Should you sell them, consolidate them, or move them around?

The return and principal value of stocks, mutual funds, ETFs, and bonds fluctuate with market conditions. Shares, when sold, may be worth more or less than their original cost. Supply and demand for ETF shares may cause them to trade at a premium or a discount relative to the value of the underlying shares. The FDIC insures CDs and bank savings accounts, which generally provide a fixed rate of return, up to $250,000 per depositor, per insured institution.

Mutual funds, ETFs, and variable annuities are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the fund or the variable annuity contract and the underlying investment options, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

Generally, annuities have contract limitations, fees, and sales charges, which may include mortality and expense charges, investment management fees, administrative fees, and charges for optional benefits. Surrender charges may be assessed during the early years of the contract if the annuity is surrendered. The guarantees of annuities are contingent on the financial strength and claims-paying ability of the issuing insurance company. The investment return and principal value of an investment option are not guaranteed. Variable annuity subaccounts fluctuate with changes in market conditions. When the annuity is surrendered, the principal may be worth more or less than the original amount invested.

Withdrawals from traditional IRAs, employer-sponsored retirement plans, and annuities prior to age 59½ may be subject to a 10% federal income tax penalty. Distributions are taxed as ordinary income (with annuities, only earnings are taxed).

Higher Retirement Confidence

Worker confidence in having enough money for retirement increased from 60% in 2017 to 64% in 2018, but still lags pre-recession highs.

Source:
Employee Benefit Research Institute, 2018

Income Strategy

Keep Allocations on Track

Asset balances tend to shift over time, especially during periods of market volatility. A shift toward stocks may lead to an overexposure to risk. A shift toward bonds might make your portfolio too conservative to accomplish your long-term goals.

You should periodically review your portfolio to determine whether it is still meeting your objectives.

Refine Your Investment Mix

When you retire, not only does your financial focus take a dramatic shift, but the guidelines for managing your money change. Although you still want your assets to grow, it may be even more important to find investments that strive to provide a steady income.

Remember: Even though your portfolio may still be growing, typically you will be withdrawing funds and living off those distributions. Generally, this means you will have more of your money in lower-risk investments so that market volatility doesn't have so great an impact on your portfolio that it threatens your lifestyle.

Refining your investment strategy for retirement involves selecting a mix of assets that will provide a stable source of income while providing continued growth.

Asset Allocation

You probably understand the concept of asset allocation: a systematic approach to diversification that determines an efficient mix of assets for an investor based on his or her individual needs.

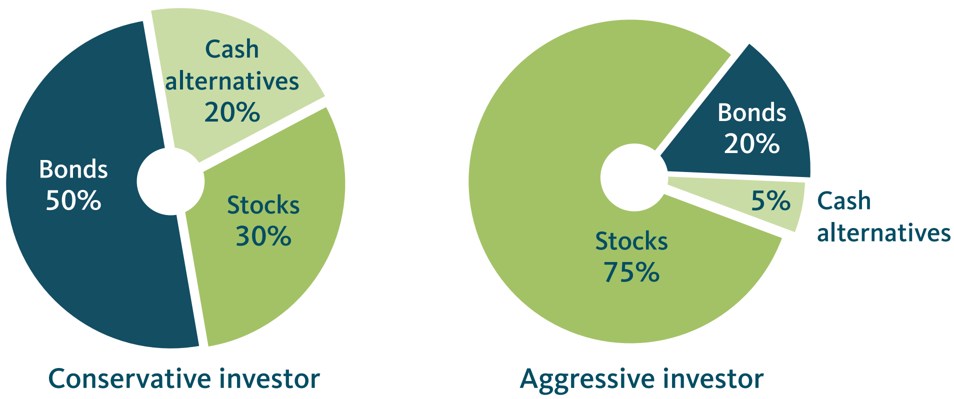
Asset allocation involves strategically dividing a portfolio into different asset classes — typically, stocks, bonds, and cash alternatives — to seek the highest potential return for your risk profile. It utilizes sophisticated statistical analysis to determine how different asset classes perform in relation to one another, and its goal is to achieve an appropriate balance of stability and growth potential.

When you retire — and even as you approach retirement — customizing an appropriate asset allocation for your portfolio to provide income in retirement (or to help protect against major losses) may be very different than it was when you were working and accumulating assets. Of course, it will still take into account three things: your investment objectives, your time frame, and your risk tolerance.

Asset allocation and diversification do not guarantee a profit or protect against investment loss. They are methods used to help manage investment risk.

Income Strategy

Sample Asset Allocation Models



Here are two sample asset allocation models that may be appropriate for investors with different risk orientations. They are hypothetical and used for illustrative purposes only.

An appropriate allocation for a conservative investor might be 50% in bonds, 30% in stocks, and 20% in cash alternatives such as money market securities and CDs. This allocation is geared more toward an investor looking to generate income and protect assets. However, it does have a sizable allocation of stocks to pursue some growth.

An allocation for an aggressive investor might be only 5% in cash alternatives, 20% in bonds, and 75% in stocks. This portfolio is geared more toward someone looking to grow assets rather than receive income. Although this allocation may be too aggressive for many retirees, it is helpful as a comparison to the conservative portfolio.

These investment categories would range from somewhat to very volatile over the years, but the mix of investments could give these investors an adequate potential return for the risk they are willing to take.

The portfolio that's appropriate for your personal situation depends on a wide variety of factors: your overall net worth, sources of income, debt level, health, and general tolerance for loss.

If your risk tolerance changes, you may want to adjust your portfolio's asset allocation — for example, by reducing your exposure to growth-oriented investments or increasing the proportion of fixed-income investments.

Rebalancing a portfolio typically involves buying and selling investments, which could have tax repercussions.

Income Strategy

Investing in Retirement

After you've targeted an asset allocation that's appropriate for your objectives and risk tolerance, it's important to choose a well-diversified mix of investments. Possible choices include:

- **Cash alternatives** for preservation of principal
- **Bonds** for stability and income
- **Stocks** for growth potential
- **Mutual funds and exchange-traded funds** for a variety of goals

It's also important to diversify *within* asset classes. For example, you might split your equity holdings into growth and value, small-cap and large-cap, and international stocks. If you have a large percentage of your portfolio in company stock, which can be risky at any stage of life, consider reallocating into different investments.

The return and principal value of stocks, bonds, mutual funds, and ETFs fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Bond funds are subject to the same inflation, interest rate, and credit risks associated with their underlying bonds. As interest rates rise, bond prices typically fall, which can adversely affect a bond fund's performance. Investing internationally carries additional risks, such as differences in financial reporting, currency exchange risk, as well as economic and political risk unique to the specific country. This may result in greater share price volatility.

Mutual funds and ETFs are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

Income-Producing Financial Vehicles

- Bonds
- Income-oriented mutual funds and ETFs
- Dividend-paying stocks
- Tax-exempt investments

Retirement Costs

When retirees were asked about their overall expenses and spending in retirement, 37% said they were higher than expected, 52% said they were about what they expected, and just 8% said they were lower than expected.

Source:
Employee Benefit Research Institute, 2018

Income Strategy

Bond Basics

Not only do bonds generate income, but they may help diversify your portfolio by balancing out the swings in your stock holdings.

When you buy a bond, you're actually lending money to a government or a corporation. Essentially, a bond is an IOU. It certifies that you have loaned money to a government entity or a corporation and describes the terms of the loan.

As with most loans, the borrower pays interest to the lender — in this case, you. The interest payments on a bond are usually fixed. Thus, when you invest in a bond, you should receive regular, fixed amounts of income for as long as you hold the bond — unless the issuer defaults. At the end of the bond term, you will be repaid your loan amount — or principal — in full.

Bonds should not be confused with bond funds, which are mutual funds or ETFs.

Bond Risks

- Interest rate risk
- Default risk
- Credit risk

Bonds, like all investments, are subject to risks. For example, if you sell a bond before the end of its term — its maturity date — it may be worth more or less than what you originally paid for it. That's due to interest rate risk. Bond prices are sensitive to changes in interest rates. As interest rates rise, the value of existing bonds typically falls. This happens because in a higher interest rate environment, newly issued bonds offer higher interest payments — or yields — than what existing bonds are providing. Therefore, existing bonds are worth less on the financial markets than new bonds that offer higher rates.

On the other hand, if interest rates fall, the value of existing bonds will rise. Because newer bonds will be issued at lower rates, your higher-interest bond may command a premium if you sell it before it reaches maturity.

Bonds are also subject to default risk, or the risk that an issuer may not be able to pay the interest or principal when it comes due.

The value of a bond may also suffer if the issuer's credit rating declines while the bond is outstanding.

Bond Value When Interest Rates Rise

If interest rates rise by only 1%, the market value of an existing two-year, $1,000 bond would fall to $982.

The longer the term of the bond, the more pronounced this effect becomes. The market value of a five-year, $1,000 bond would fall to $959; a 20-year, $1,000 bond would fall to $894.

This applies only if you sell your bond holdings before they mature.

This hypothetical example is used for illustrative purposes only and does not represent any specific investment.

Income Strategy

Mutual funds and ETFs are attractive income-producing options. An ETF is similar to a mutual fund, but it can be traded throughout the day on a stock exchange.

Investment funds are subject to market risk. The return and principal value will fluctuate with changes in market conditions. Shares, when redeemed, may be worth more or less than their original cost. Supply and demand for ETF shares may cause them to trade at a premium or a discount relative to the value of the underlying shares.

Managing Bond Risks

To help manage the risks associated with bonds, you might consider a strategy known as bond laddering. A bond ladder spreads the maturity dates over time.

For example, you might purchase a series of different bonds with maturity dates staggered in two-year increments. As each bond matures, you would reinvest the principal in bonds of longer maturities, so that the ladder continues.

In the example here, as the two-year bond matures, the proceeds would be invested in a new 10-year bond — and so on.

Constructing a bond ladder may help build a stable, predictable income stream. It also helps diversify your bond portfolio because you can mix and match between government and corporate bonds, depending on your risk profile and investment objectives. For more immediate needs, you might consider building a shorter-term ladder with short-term bonds and more conservative financial vehicles such as certificates of deposit.

The Federal Deposit Insurance Corporation insures CDs and bank savings accounts, which generally provide a fixed rate of return, up to $250,000 per depositor, per insured institution.

Income-Producing Mutual Funds and ETFs

- Low initial investment
- Professional management
- Diversification
- Flexibility

Some mutual funds and exchange-traded funds (ETFs) can be a fairly reliable source of income. For a relatively low initial cost, you can purchase shares of a professionally managed portfolio that usually consists of a large number of different securities.

Income funds invest primarily in a variety of high-quality corporate bonds, lower-grade bonds, dividend-paying stocks, or a combination of these securities, depending on the fund's objectives. This can give you enhanced diversification, as well as flexibility to customize your portfolio.

Mutual funds and ETFs are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

Dividend-Paying Stocks

Some companies distribute part of their profits to stockholders in the form of a dividend. Rather than keep all the profits to fuel internal growth, these companies have decided to return a portion of their profits to shareholders.

Dividend stocks can serve double duty in your portfolio, since they also add a potential element of growth. Moreover, a stock does not have to pay a dividend to generate income. You might receive a certain monthly income — say $500 — by selling an appropriate number of shares to provide that income stream. Under this strategy, you would be responsible for taxes on any capital gains.

The return and principal value of stocks fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost.

Dividends are paid at the discretion of a company's board of directors.

The amount of a company's dividend can fluctuate with earnings, which are influenced by economic, market, and political events.

Though dividends can increase, there is no guarantee that a dividend will not be reduced or eliminated.

Tax-Exempt Investments

If you're in a high tax bracket, you might benefit from tax-exempt vehicles.

- Municipal bonds
- Treasury securities
- Tax-free money market funds

Municipal bonds are free of federal income tax and may be free of state and local income taxes if you live in the jurisdiction where the bond is issued. You will have to pay income taxes if you buy shares of a municipal bond fund that invests in bonds issued by other states.

Treasury securities are taxable at the federal level, but are generally tax exempt at the state level. Tax-free money market funds invest in a pool of short-term tax-exempt municipal securities. Keep in mind that the yield on a tax-exempt investment is typically lower than the yield on a similar taxable investment.

Bond funds are subject to the same inflation, interest rate, and credit risks associated with their underlying bonds. As interest rates rise, bond prices typically fall, which can adversely affect a bond fund's performance. Although some municipal bonds in a fund may not be subject to ordinary income taxes, they may be subject to the federal alternative minimum tax. If a tax-exempt bond fund is sold at a profit, there are capital gains taxes to consider.

Treasuries are backed by the full faith and credit of the U.S. government as to the timely payment of principal and interest. The principal value will fluctuate with changes in market conditions. Treasuries and bond funds not held to maturity may be worth more or less than their original cost.

Money market funds are neither insured nor guaranteed by the FDIC or any other government agency. Although money market funds seek to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in such a fund. The official statement should be read carefully before investing. The underlying mutual fund may impose a liquidity fee or suspend redemptions and the investor should not expect the underlying fund sponsor to provide financial support to the underlying mutual fund.

Income Strategy

Is Tax-Exempt Investing Appropriate for You?

Federal income tax bracket	Tax-exempt yield: 2%	3%	4%	5%
10%	2.22%	3.33%	4.44%	5.56%
12%	2.27%	3.41%	4.55%	5.68%
22%	2.56%	3.85%	5.13%	6.41%
24%	2.63%	3.95%	5.26%	6.58%
32%	2.94%	4.41%	5.88%	7.35%
35%	3.08%	4.62%	6.15%	7.69%
37%	3.17%	4.76%	6.35%	7.94%

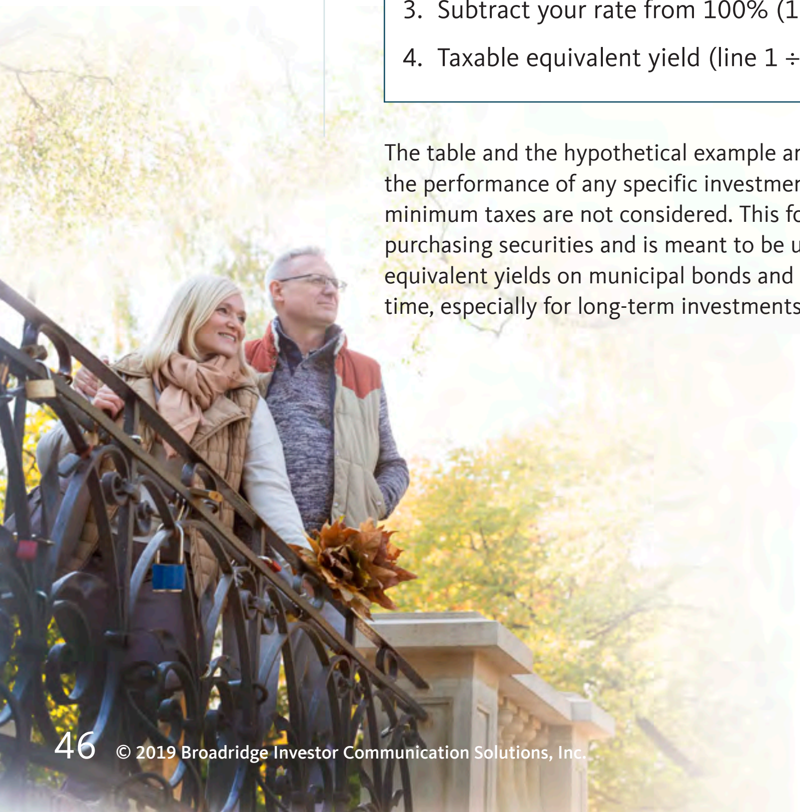
Taxable equivalent yield

One way to compare the yields on taxable and tax-exempt investments is to look at the taxable equivalent yield. For example, in the top row of the table, locate the yield of a tax-exempt investment you may be considering. Next, locate your federal income tax bracket in the column on the left. The percentage where these two variables intersect shows the taxable equivalent yield. In other words, an investor in the 22% federal income tax bracket would have to earn 6.41% on a taxable investment to match a tax-exempt yield of 5%.

You can also use the following worksheet to calculate the taxable equivalent yield for your own investments. Generally, the higher your income, the more you can benefit from tax-advantaged investing.

Calculating the Taxable Equivalent Yield	Example	You
1. Take the tax-exempt yield	5 %	____ %
2. Your federal income tax rate	22 %	____ %
3. Subtract your rate from 100% (1.00 – line 2)	78 %	____ %
4. Taxable equivalent yield (line 1 ÷ line 3)	6.41 %	____ %

The table and the hypothetical example are used for general illustrative purposes and do not reflect the performance of any specific investment. Possible state taxes, capital gains taxes, and alternative minimum taxes are not considered. This formula is only one factor that should be considered when purchasing securities and is meant to be used only as a general guideline when calculating the taxable equivalent yields on municipal bonds and agency and treasury securities. Rates of return will vary over time, especially for long-term investments. Actual results will vary.



Income Strategy

Choose a Plan for Tapping Assets

You've worked long and hard to accumulate retirement assets. To make the most of your money, you will need to make decisions about where you should keep your funds, how to tap into them, how much you can afford to withdraw each year, and which assets to spend first.

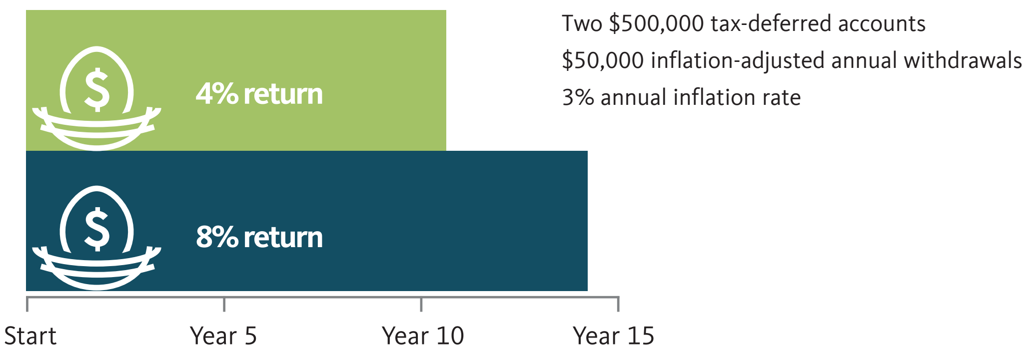
How Long Would a Retirement Portfolio Last?

Before you make any decisions about tapping your retirement assets, it might help to look at several factors that could influence a portfolio's staying power: the portfolio's original value, inflation, investment returns, tax rates, and the annual withdrawal amounts.

The chart below compares two tax-deferred portfolios to show how long $500,000 might last in retirement, assuming 4% and 8% annual rates of return and $50,000 annual withdrawals (adjusted for 3% annual inflation). (Withdrawals of $50,000 would provide an after-tax income of about $30,000 to $35,000 for a typical person.)

A $500,000 account earning 4% would last almost 11 years. A $500,000 account earning an 8% rate of return would last more than 14 years.

As you can see, a higher return can have a substantial impact on how long retirement funds will last. Think of this in the context of how long you expect to live, and you'll see how important it can be to help make sure that your money lasts throughout your lifetime.



This hypothetical example is used for illustrative purposes only and does not reflect the performance of any specific investment. The principal values and yields of securities will fluctuate with changes in market conditions. Investments, when sold, may be worth more or less than their original cost. Taxes, fees, and other expenses were not considered. Withdrawals from tax-deferred accounts are taxed as ordinary income; early withdrawals prior to age 59½ may be subject to a 10% income tax penalty. Rates of return will vary over time, especially for long-term investments. Investments seeking to achieve higher rates of return involve greater risk. Actual results will vary.

Withdrawal Decisions

Adjusting your withdrawal rate could help your portfolio last longer.

Income Strategy

Unpredictable Markets

The risk of experiencing poor investment performance at the wrong time is called *sequencing risk* or *sequence of returns risk*.

A market downturn just before you retire, or in your early retirement years, can have a significant effect on your portfolio's lasting potential. If you're forced to sell investments for income during a dip, it could have an impact on your portfolio's potential to recoup losses when the market turns upward.

So, what can you do? The decisions you make to draw down your assets will largely depend on three factors:

- Value of your portfolio when you retire
- Actual investment returns
- Amount and timing of withdrawals

Could Your Portfolio Recover from a 50% Drop?

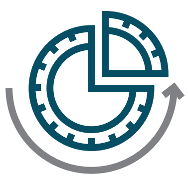
Stocks fell more than 50% between October 2007 and March 2009. Even though stocks recovered much of their losses during the last three quarters of 2009, many investors reacted by reducing their exposure to equities and may not have participated fully in the market rebound.

Source:
Yahoo! Finance, 2018. Stocks are represented by the Dow Jones Industrial Average, an unmanaged index that is generally considered representative of U.S. stocks.

The performance of an unmanaged index is not indicative of the performance of any particular investment. Individuals cannot invest directly in an index. Past performance is not a guarantee of future results.

Withdrawal Strategies

You might consider one of these strategies for withdrawing money in retirement:



- 4% rule
- Endowment method
- Life-expectancy method
- Three-tiered strategy

4% Rule

The premise of the 4% rule, which has been around since the 1990s, is that if you withdraw 4% of your account in the first year of retirement and adjust the amount each year for inflation, your assets could last for about 30 years.

The strategy assumes that your tax-deferred portfolio is invested 50% in stocks and 50% in bonds. The expected rate of return is based on the historical market performance of a similar portfolio, which cannot be guaranteed. It also assumes that the account will be completely liquidated, so nothing will be left for heirs.

The advantage of this strategy is that it strives to provide a consistent level of income, adjusted each year to meet the rising cost of living.

The disadvantage is that a market downturn just before or early in your retirement could have a significant impact on the strategy's success. In addition, the strategy doesn't take into account several ever-changing factors — income needs, tax situation, medical expenses — that you might face in retirement.

Recently, the recommended strategy has shifted toward a 3% to 3.5% initial withdrawal rate. On the other hand, if you have a high risk tolerance or significant assets outside of your tax-deferred accounts, you might be able to afford a higher withdrawal rate, such as 5%.

Endowment Method

Like the 4% rule, the endowment method begins with an initial withdrawal of a fixed percentage, typically 3% to 5%. In subsequent years, the same fixed percentage is applied to the remaining assets. So the actual withdrawal amount may go up or down depending on previous withdrawals and market performance. A modified version of the endowment method applies a ceiling and/or a floor to the change in your withdrawal amount.

For example, you might limit increases in your withdrawal amount to 5% annually and limit decreases to 3% annually. This could help prevent you from withdrawing too much after a good market year, while potentially maintaining a relatively steady income after a down market year.

The main advantage of this strategy is that, theoretically, your portfolio can't be exhausted. Only a percentage is withdrawn each year. Good market years produce higher levels of income.

The main disadvantage of this strategy is that income can be unpredictable from year to year, and there is no adjustment for inflation.

Life-Expectancy Method

With this method, you withdraw an increasing percentage of your portfolio each year based on your life expectancy. Basically, this means you would divide your total portfolio by your life expectancy.

For example, if your life expectancy is 25 years, you would withdraw 4% (1 ÷ 25 = 4%). If your life expectancy is 20 years, you would withdraw 5% (1 ÷ 20 = 5%).

To determine your life expectancy, you might refer to the IRS tables for determining required minimum distributions from retirement plans. There are three tables to choose from in IRS Publication 590-B, *Distributions from Individual Retirement Arrangements (IRAs)*.

The advantage to this method is that it uses a percentage of your savings that increases each year, which can help address the rising cost of living. Also, theoretically, your portfolio will never be depleted.

The disadvantage is that poor market performance can reduce the income amount in any given year. In addition, you might have lower income in the early retirement years, when you might be most active, and higher income later in life. As with the endowment method, you could use a floor/ceiling approach to help manage the variances from year to year.

Income Strategy

Three-Tiered Strategy

This withdrawal method could help even out the sequence of return risks and can be used with any of the previous withdrawal strategies. You would divide your portfolio into three tiers, and throughout retirement you would periodically shift assets from the long- and medium-term tiers downward to provide for your short-term needs.

The advantage of this strategy is that it divides distributions for the short and long term into manageable steps, offering a way to balance both current income and future growth needs.

The disadvantage is that it requires active portfolio management, depends on market performance, and may be challenging to coordinate using multiple retirement accounts with different tax considerations.

Tier 1 (short term): Estimate what you might need for the next two to three years, and invest that money in conservative assets such as cash and cash alternatives.

Tier 2 (medium term): For money you might need in three to 10 years, you would invest primarily in fixed-income vehicles that offer the potential for moderate returns.

Tier 3 (long term): For money you may not need for a decade or more, you would invest in more aggressive investments for future growth potential.

Here's a hypothetical example: The Millers have an $850,000 retirement portfolio. Their goal is to generate a potentially continuous income stream of $45,000 annually before taxes, regardless of how long they live. They divide their assets into three tiers: In Tier 1, $206,026 is invested in a conservative vehicle earning 3% each year that would generate a $45,000 annual income for five years. Tier 2 begins with $169,338 in fixed-income investments, earning a hypothetical 4% annual return for five years. Tier 3 holds the remaining $474,636, which is invested in growth-oriented investments earning a hypothetical 6% rate of return each year for 10 years.

After five years, when the assets in Tier 1 become depleted, the assets that potentially accumulate in Tier 2 could be used to purchase a second conservative vehicle that would provide $45,000 annual income for five more years.

After 10 years, assuming the assets in Tier 3 grow to the value of the initial $850,000 portfolio, the strategy could begin again to continue generating a continuous $45,000 annual income.

Initial portfolio value: $850,000
Annual income goal: $45,000

Tier 3 $474,636

Growth investments @ 6% — Worth $850,000 after 10 years; used to begin strategy again

Tier 2 $169,338

Fixed-income investments @ 4% — Worth $206,026 after 5 years; used to invest in a new conservative vehicle

Tier 1 $206,026

Conservative vehicle @ 3% — Withdraw $45,000 annual income for 5 years, until depleted

This hypothetical example is used for illustrative purposes only and does not represent any specific financial vehicles. Fees, expenses, and taxes were not taken into account and would reduce the results shown if included. Rates of return vary over time, particularly for long-term investments. Investments seeking to achieve higher rates of return also involve a higher degree of risk. Actual results will vary.

Income Strategy

What to Spend First? Consider Taxable Before Tax Deferred

Determining which assets to spend first isn't easy. It involves weighing the tax consequences, opportunity costs, and even emotional implications of liquidating each asset in your portfolio. Further complicating the issue is that you may have an assortment of taxable, tax-deferred, and tax-free accounts to draw from.

One strategy is to spend *taxable* assets — brokerage accounts; CDs and bank savings accounts; individual stocks, bonds, mutual funds, and ETFs — before dipping into tax-deferred assets. Consider using assets with the highest cost basis first. Remember that appreciated investments sold for a gain are subject to capital gains tax.

Tax-deferred options generally refer to IRAs, employer-sponsored retirement plans, and annuities. If you are financially able to leave tax-deferred assets untouched, you can potentially extend their tax-advantaged growth until you must begin taking RMDs from them.

Tax-exempt investments are free of federal income tax. Qualified Roth IRA distributions are tax-free and won't affect your adjusted gross income.

Distributions from tax-deferred accounts are subject to ordinary income tax and a 10% income tax penalty if taken before age 59½ (or, in some cases, age 55 or 50 if you separate from service); some exceptions apply. To be "qualified," a Roth distribution must come from an account that has been in place for at least five years, and it must occur after age 59½ or result from the owner's death or disability.

Winners vs. Losers

Within your taxable accounts, you might also consider liquidating winners, or highly appreciated assets, before you spend losers. Although this may seem counter-intuitive — after all, you would be cashing in on winners rather than cutting your losses — it could help you rebalance your portfolio and take advantage of higher earnings.

Also consider that any capital losses you may have incurred in previous years can be used to offset capital gains taxes that could result from the sale of appreciated assets.

However, if your goal is to leave an inheritance, you might not want to sell some highly appreciated assets (such as property or shares of stock). If you continue holding these assets, their value would be stepped up to their full market value as of the date of your death. Your heirs would owe capital gains tax only on any appreciation since the time of your death, not on your original basis in the property. *Note: Some inherited assets such as cash and tax-deferred retirement accounts do not receive a step-up in basis.*

Of course, you might combine several distribution methods, depending on your needs and goals. Utilizing a tax-efficient withdrawal strategy may enable your retirement portfolio to last much longer.

Build a Cash Reserve

If you have time to build a safety net of cash reserves that could carry you through the first few years of retirement, you may be able to avoid selling tax-advantaged investments in the event of a down market.

Having this flexibility could give your growth-oriented assets a longer time to recover and potentially grow.

Income Strategy

Retirement Plan Distribution Options

- Leave money in current plan until needed
- Roll money into a new employer plan, if you're still working
- Take distributions as a lump sum, systematic withdrawals, or lifetime annuity
- Roll funds over to an IRA

Before making any decisions about your employer plans, it's important to evaluate the main distribution methods that may be available to you. You might decide to leave your assets in your current retirement plan, particularly if you're comfortable with the costs and investments in your plan. Your money will continue to grow tax deferred until you begin withdrawals or transfer them to another tax-deferred plan.

If you change jobs, you may also be able to transfer the assets to your new employer's plan, if the new employer allows rollovers. You might consider this approach if you plan to continue working into your retirement because you can delay RMDs from your current employer's plan while you are still working.

Lump-Sum Distribution

A lump-sum distribution would give you immediate access to and total control of your money. You could use funds to pay off an existing mortgage, purchase a vacation home, start a business, reinvest in the markets, or any way you like.

If you elect a lump-sum distribution, you will receive the entire balance of your retirement account in one payment. The downside is that income taxes are generally due on the total amount of the distribution, and they are due in the year in which you cash out. A large distribution could easily move you into a higher tax bracket.

Another consideration is that employers issuing a check in your name for a lump-sum distribution are required to withhold 20% toward federal income taxes, so you would actually receive only 80% of your total vested accumulation. And it's important to remember that the taxes you owe may actually be more than the 20% that the employer withholds. *Income taxes generally don't apply to qualified distributions from Roth accounts.*

Any withdrawals you make, either lump sum or otherwise, before you reach age 59½ may incur a 10% federal income tax penalty in addition to ordinary income taxes, unless an exception applies. Exceptions may apply to amounts taken if you separate from service after age 55 (or 50, in some cases); other exceptions may also apply.

Income Strategy

Systematic Withdrawals

- Fixed dollar amount on a regular basis
- Specific percentage of account value on a regular schedule
- Total value of account in equal distributions over a specific time period
- Monthly, quarterly, semi-annual, or annual payments

Some plans will let you take systematic withdrawals using one of three payout methods: (1) a fixed dollar amount on a regular schedule, (2) a specific percentage of the account value on a regular schedule, or (3) the total value of the account in equal distributions over a specified period of time.

You may be able to choose payouts over a monthly, quarterly, semi-annual, or annual basis. Depending on the plan, you generally have some flexibility to change your payout arrangement over time. The administrator of your plan is responsible for handling the payments and ensuring that you take RMDs when the time comes.

Of course, your assets might not last throughout your lifetime. If your payouts are larger than any growth of your account, your principal will drop, and eventually your account may become depleted.

Like other retirement plan withdrawals, distributions are generally taxed as ordinary income (unless they come from Roth accounts), and they may be subject to a 10% federal income tax penalty if taken prior to age 59½, unless an exception applies.

Ahead of the Game

Only 38% of U.S. workers have tried to calculate how much money they will need to retire comfortably.

Source:
Employee Benefit Institute, 2018

Lifetime Annuity

- Guaranteed regular payments
- Lasts for your lifetime or joint lives of you and beneficiary
- Payments are not indexed for inflation
- Irrevocable decision

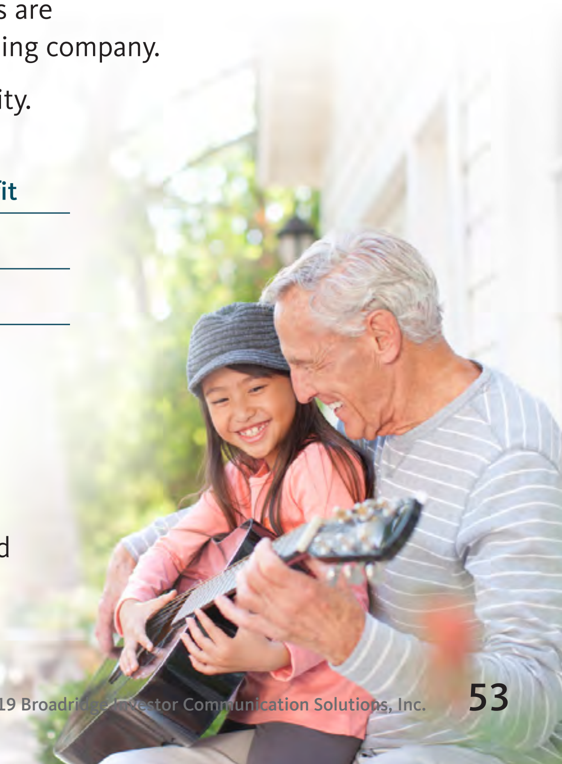
Not many plans offer this type of distribution, so be sure to check with your human resources department to see if yours does. Be aware that any guarantees are contingent on the financial strength and claims-paying ability of the issuing company.

Here's an example of three possible payout options with a lifetime annuity.

	Retiree monthly benefit	Survivor monthly benefit
Single life	$1,667	$0
Joint and 100% survivor	$1,175	$1,175
Joint and 50% survivor	$1,500	$750

This hypothetical example is used for illustrative purposes only.

The single-life annuity provides the maximum monthly benefit, but the survivor would receive no benefit after the annuitant's death. The joint and 100% survivor option provides a lower monthly income, but it would last throughout the lifetimes of both the annuitant and the survivor. When you take payments as a lifetime annuity, you must pay income taxes on the distributions.



Income Strategy

Exceptions to Early-Withdrawal Penalty

Most tax-deferred plans have exceptions to the 10% penalty, including distributions resulting from death or disability, and distributions that are used to pay unreimbursed, qualified medical expenses exceeding 10% of adjusted gross income.

IRAs allow additional exceptions: distributions that are used to pay qualified higher-education expenses, purchase a first home ($10,000 lifetime limit), or are part of a series of substantially equal periodic payments.

Which Distribution Option Is Right for You?

Before you can answer this question, you should consider:

- Your age
- Liquidity needs
- Market volatility vs. preservation of funds
- Income needs
- Current and future tax situation

Remember that distributions received before you reach age 59½ are subject to a 10% federal income tax penalty (unless you separate from service at age 55, or in some cases age 50).

If you don't need to use the bulk of the money right away, you may prefer to let it continue accumulating tax deferred in your original plan, or you might want to move the funds to another tax-deferred vehicle.

Are you ready to pay taxes on the distribution at your current income tax rate? Will you be in a lower tax bracket later in retirement? If you postpone distributions until later, might your income be high enough to affect the taxability of your Social Security benefits? Consider consulting your tax adviser regarding your specific situation.

IRA Rollover

- Continued tax deferral
- Generally, more investment options
- Can consolidate assets from multiple accounts
- Potential legacy planning benefits

If you move qualified assets to a traditional IRA using an indirect (60-day) rollover or a trustee-to-trustee transfer (direct rollover), you can postpone paying current income taxes, and your savings will continue to grow on a tax-deferred basis. You would pay ordinary income taxes only on any withdrawals.

Generally, IRAs offer more investment options than you might have in your employer's retirement plan. Of course, the options available to you will vary by institution. If you have several retirement plans spread among previous employers, you can consolidate them into a single IRA, which could make it easier to manage the money.

Another possible benefit: If you eventually want to pass IRA assets to your heirs, you may be able to "stretch" the tax-deferred savings for future generations.

As with employer-sponsored retirement plans, you must begin taking required minimum distributions (RMDs) from a traditional IRA once you reach age 70½.

Distributions from traditional IRAs and most employer-sponsored retirement plans are generally taxed as ordinary income. Early distributions taken prior to reaching age 59½ may be subject to a 10% federal income tax penalty.

Possible Drawbacks of Rolling Assets from an Employer Plan to an IRA

When you leave employment — to change jobs or step into retirement — it's important to consider what will happen to any savings in your workplace retirement plan. Although one option is to transfer plan assets to an IRA, there are certain situations when it might make more sense to leave the assets in your former employer's plan or transfer the funds to a new employer's plan, if either option is available.

Creditor protection. Employer plans may provide greater creditor protection than an IRA. Most qualified employer plans [such as 401(k) plans] receive virtually unlimited protection from creditors under federal law. Your creditors cannot attach your plan funds to satisfy any of your debts and obligations, regardless of whether you've declared bankruptcy.

By contrast, traditional and Roth IRAs are generally protected under federal law only if you declare bankruptcy. Any creditor protection your IRA may receive in cases outside of bankruptcy will generally depend on the laws of your particular state.

Investment choices and fees. Even though IRAs typically provide more investment choices than an employer-sponsored retirement plan, certain investment opportunities may be available only in your employer plan. In addition, the investment-related costs may be lower in your plan than in a comparable IRA, and your employer may pay for some or all of the plan's administrative expenses.

Early retirement. Distributions from your employer plan won't be subject to the 10% early-distribution penalty if you retire during the year you turn 55 or later (age 50 for qualified public safety employees). By contrast, distributions from your IRA before you reach age 59½ will be subject to the penalty tax, unless an exception applies.

Delayed retirement. Once you reach age 70½, you must begin taking RMDs from your tax-deferred retirement accounts each year, whether you need the money or not, or face a 50% penalty on the amount that should have been withdrawn. If you continue working into your 70s, you can wait to take RMDs from your *current* employer's plan until after you retire, although you must take RMDs from other tax-deferred plans.

Five-year test. A Roth employer account distribution that hasn't satisfied the five-year holding requirement is not yet qualified and eligible for a tax-free and penalty-free distribution, and rolling the assets to a new Roth IRA restarts the clock. You'll have to wait five more years until a Roth distribution will be qualified and tax-free.

Appreciated company stock. A special net unrealized appreciation (NUA) rule applies when you receive a distribution of employer stock from your plan. You pay ordinary income tax only on the cost of the stock at the time it was purchased for you by the plan, and any appreciation receives more favorable long-term capital gains treatment. These NUA rules do not apply if you roll the stock to an IRA.

Be aware that you are limited to one tax-free IRA-to-IRA rollover in a 12-month period, regardless of how many IRAs you have.

The once-per-year rule does not apply to trustee-to-trustee transfers (direct rollovers), nor does it apply to Roth IRA conversions.

Income Strategy

Required Minimum Distributions

Generally, you must begin taking required minimum distributions (RMDs) from traditional IRAs and most employer-sponsored retirement plans once you reach age 70½. If you're still employed, you may be able to delay minimum distributions from your *current* employer's plan until after you retire, but you still have to take minimum distributions from other tax-deferred accounts. *(Roth IRAs and annuities are an exception.)*

The required beginning date for your first distribution is no later than April 1 of the year following the year you turn 70½. After that first distribution, annual distributions must be taken by December 31 each year.

Think carefully about the timing of your first distribution. For example, if you reach age 70½ in March 2019, you could wait until as late as April 1, 2020, to take your first distribution. But by doing so, you would have to take *two* distributions in 2020 — one by April 1 (for your 2019 RMD) and the other by December 31 (for your 2020 RMD) — which could bump you into a higher tax bracket. Failure to take the required minimum distribution could result in a 50% penalty tax on the amount that should have been withdrawn (plus taxes).

RMDs are based on your age, the value of your account(s), and your life expectancy. Use the life-expectancy tables in IRS Publication 590-B to calculate annual RMD amounts. Simply divide your account balance (as of December 31 of the previous year) by the number of years you are expected to live, based on the numbers in the table. You can take the total RMD amount from one IRA or several IRAs to meet your minimum required distribution.

The table below shows some hypothetical account balances and estimated RMDs based on the distribution periods published in the Uniform Lifetime Table.

Age	Account balance	Distribution period	Estimated RMD
70	$500,000	27.4	$18,248
75	$400,000	22.9	$17,467
80	$300,000	18.7	$16,043
85	$200,000	14.8	$13,514
90	$100,000	11.4	$8,772

If you have money in an IRA *and* in an employer-sponsored retirement plan, you need to take a minimum distribution from each type of plan. If you have more than one employer plan, you have to take separate withdrawals from each. There are also special RMD rules for people who inherit an IRA.

Distributions from traditional IRAs and employer-sponsored retirement plans are generally taxed as ordinary income.

RMD rules imposed by the IRS are designed to ensure that you do not defer the taxes indefinitely.

Life Expectancy Tables

The life expectancy tables in Appendix B of IRS Publication 590-B can be used to help compute RMDs.

Table I, Single Life Expectancy, is intended for use by beneficiaries.

Table II, Joint Life and Last Survivor Expectancy, is intended for owners whose spouses are more than 10 years younger and are the sole beneficiaries of their IRAs.

Table III, Uniform Lifetime, is for use by unmarried owners, married owners whose spouses are not more than 10 years younger, and married owners whose spouses are not the sole beneficiaries of their IRAs.

Should You Consider a Roth IRA?

- Qualified distributions are tax-free
- Contributions (not earnings) can be withdrawn at any time, for any reason
- Can contribute past age 70½ if you have earned income (from wages)
- Not subject to mandatory distributions

Unlike traditional IRAs, which are generally funded with tax-deductible contributions (or rollovers), Roth IRAs are funded with after-tax contributions or assets converted from tax-deferred retirement plans.

The significant difference between a traditional IRA and a Roth IRA is that qualified Roth IRA distributions are free of federal income tax, whereas a traditional IRA distribution is taxed as ordinary income. To be "qualified," a Roth distribution must come from an account that has been in place for at least five years, and it must occur after age 59½ or result from the owner's death or disability. A tax-free distribution can also be used for a qualified first-time home purchase ($10,000 lifetime maximum), provided the five-year holding requirement has been met.

Being forced to take RMDs from traditional IRAs and employer-sponsored plans before you need the money often creates an unwelcome income tax liability.

Moreover, reporting a higher adjusted gross income could subject more of your Social Security income to tax and/or result in higher Medicare premiums.

Roth IRA: Conversions and Other Considerations

You can convert employer-sponsored retirement plan assets and traditional IRA assets directly to a Roth IRA, but you must pay ordinary income tax on any pre-tax assets that are converted. Taxes owed are payable in the year of the conversion. To help manage the tax liability on a Roth IRA conversion, you may want to convert smaller amounts gradually over a number of years.

Paying taxes on a Roth IRA conversion may seem daunting, but consider that under current tax law, any future growth in the Roth account will be tax-free.

And if you leave a Roth IRA to your heirs, their distributions will be free of federal income taxes, too, which makes the Roth IRA a good tool to consider for legacy planning.

Although Roth IRAs are not subject to RMDs, inherited Roth IRAs are subject to required minimum distributions after the original owner's death. However, these distributions would not be subject to federal income tax.

Income Strategy

Fixed Annuities

If a steady and predictable stream of income is important to you, you might consider using a portion of your portfolio to invest in a fixed annuity — an insurance-based contract designed to provide a consistent retirement income stream, either for a set number of years or for life. If you choose a lifetime payout, this can help protect against the risk of running out of money. Contributions to annuities are made with after-tax dollars, but any earnings accumulate on a tax-deferred basis. Payouts typically can be paid on a monthly, quarterly, semi-annual, or annual basis.

If you purchase an immediate annuity with a fixed period and you die before receiving all of your payments, the remaining payments would be paid to your beneficiaries.

Fixed annuities may offer competitive rates of return. Your rate may be adjusted, but it will never fall below a guaranteed minimum rate specified in the contract. This guaranteed rate acts as a floor to protect you from periods of low interest rates.

Annuities are not subject to federal contribution limits, so they can be funded with a lump sum from a retirement plan distribution, an inheritance, or the sale of a home or business. In addition, annuity owners are not required to take mandatory distributions due to age.

Generally, annuity contracts have fees and expenses — including mortality expense charges and investment management fees — limitations, exclusions, holding periods, termination provisions, and terms for keeping the annuity in force. Surrender charges may be assessed during the early years of the contract if the annuity is surrendered. Withdrawals prior to age 59½ may be subject to a 10% federal income tax penalty. The guarantees of annuity contracts are contingent on the financial strength and claims-paying ability of the issuing insurance company. Withdrawals of annuity earnings are taxed as ordinary income. Optional riders are available for an additional fee and are subject to contractual terms, conditions, and limitations as outlined in the prospectus and may not benefit all investors.

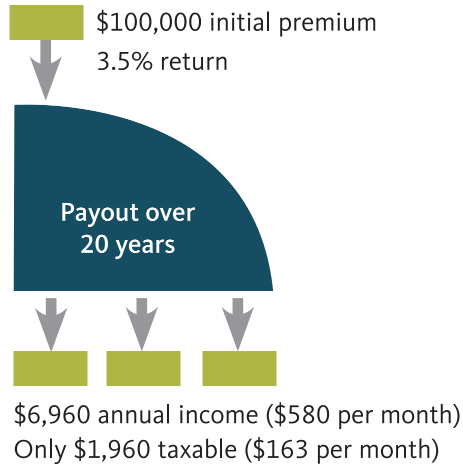
Types of Fixed Annuities

An **immediate annuity** provides current income. Once you pay the premium, you will begin receiving a regular income, which is guaranteed by the issuing insurance company. That's what makes immediate annuities appealing to people who are retiring and want to reallocate their savings and investments for greater income.

A **deferred annuity** is designed for long-term accumulation. Typically, it is purchased during an individual's working years to allow the funds to grow. As its name implies, a deferred annuity postpones the income you will receive to some future date. The premiums you pay earn interest. This doesn't mean you can't take out your money if you need it, but while the annuity is accumulating tax deferred, you aren't receiving any income.

The earnings credited to a tax-deferred annuity are not taxed until they are withdrawn. When you do begin receiving payments from the annuity, the payments will reflect the added value from this tax-deferred accumulation.

How an Immediate Annuity Works



Here's a hypothetical example of how an immediate annuity can work. Joan was 65 and about to retire. Her parents were still alive, in their late 80s, so she anticipated living a long time in retirement and was concerned about outliving her income.

Joan wanted to supplement her savings with another source of steady income. She decided to purchase an immediate fixed annuity with a premium of $100,000 and a 3.5% annual interest rate. This would provide her with payments of about $6,960 per year for the rest of her life ($580 per month). Only $1,960 of that annual income ($163 per month) would be taxable. The remaining $5,000 ($417 per month) would be treated as a return of principal, which she would receive free of income taxes.* Even if Joan lived well into her 90s, this income would continue throughout her lifetime.

*Once Joan has reached her life expectancy of 20 years and recovered her investment in the annuity contract, the entire amount of each payment will be taxable. If she dies before reaching her life expectancy, a deduction may be available for her unrecovered investment in the contract.

This hypothetical example is used for illustrative purposes only and does not reflect the performance of any specific annuity. It does not consider the effects of sales charges or other expenses. Actual results will vary. If the annuity owner (and/or selected beneficiary) dies before receiving all of the payments, the remaining payments would be paid to the named beneficiaries.

Why Is an Immediate Annuity an Attractive Option?

An immediate annuity can protect you from the risk of outliving your money. And it can provide continuing payments to your surviving spouse (or designated beneficiary) for his or her lifetime. An immediate annuity can also provide a legacy-planning benefit.

Qualified Longevity Annuity Contract (QLAC)

Some IRAs and employer-sponsored retirement plans may offer a QLAC option. It is basically longevity insurance (a deferred income annuity) that is designed to provide a guaranteed lifetime income once you reach an advanced age, such as 80 or 85.

If you participate in a qualified plan, the IRS allows you to use the lesser of $125,000 (inflation adjusted) or 25% of your account balance to purchase a QLAC. The annuity's value is excluded from the account balance used to determine RMDs, so not only does this give you the ability to reduce the amount you receive in annual RMDs starting at age 70½, but it provides a guaranteed lifetime income once you reach an advanced age — a time when you might have depleted significant portfolio assets. Like other tax-deferred plan distributions, income payouts from a QLAC are fully taxable.

The rules allow for the continuation of income payments throughout the lifetime of a beneficiary (such as a surviving spouse) and/or the return of premiums (minus payouts) as a death benefit. But these options will raise the purchase price or reduce income payments later in life.

One downside is that once you purchase longevity insurance, the money is locked up and cannot be withdrawn if you need it later. You could sacrifice the opportunity for higher returns that might be available in the financial markets.

If you are considering longevity insurance, you should understand that if you die before the payouts begin, the insurance company will generally keep the premiums paid, unless payouts were structured to continue throughout the lifetime of a second individual.

Any annuity guarantees are contingent on the financial strength and claims-paying ability of the insurance company.

Income Strategy

Variable Annuities

Just as its name implies, a variable annuity offers variable returns. It enables you to divide your premiums among a variety of investment options (or subaccounts) whose value will fluctuate with market conditions. Your return is based on the performance of the subaccounts you select.

Any annuity guarantees are contingent on the financial strength and claims-paying ability of the issuing insurance company.

Because of their unique structure, variable annuities offer investment flexibility. Most contracts offer a variety of stock, balanced, bond, and money market subaccounts, as well as a fixed-interest account. These market-based subaccounts give you access to investment professionals who manage assets according to the stated objective.

You can periodically reallocate your variable annuity subaccounts based on changes in the financial markets or your personal situation.

Although a variable annuity may outperform a fixed annuity, there are no guarantees. If the markets experience hard times, variable annuity investors run the risk of losing accumulated earnings and even principal. With a variable annuity, you bear the investment risk, not the insurance company.

The investment return and principal value of an investment option are not guaranteed. Variable annuity subaccounts fluctuate with changes in market conditions. When the annuity is surrendered, the principal may be worth more or less than the original amount invested.

Variable annuities are long-term investment vehicles designed for retirement purposes. They are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the variable annuity contract and the underlying investment options, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

Indexed Annuities

The performance of an indexed annuity is tied to a market index such as the S&P 500. When the index rises, so does the return on the annuity. But if the index tumbles, typically the worst the annuity can do is earn the contract's minimum guaranteed rate of return. This minimum guarantee is contingent on holding the annuity until the end of the term.

The S&P 500 is an unmanaged index generally considered to be representative of the U.S. stock market and does not take into account the fees and expenses associated with investing or the effects of taxes.

Indexed annuities are not appropriate for every investor. Participation rates are set and limited by the insurance company. An 80% participation rate means that only 80% of the gain experienced by the index for that year would be credited to the contract holder. Also, like most annuity contracts, indexed annuities have certain rules, restrictions, and expenses.

The guarantees of indexed annuities may cover only a certain percentage of the initial investment; therefore, it is possible to lose money when investing in an indexed annuity. In addition, some insurance companies reserve the right to change participation rates, cap rates, or other fees either annually or at the start of each contract term. These types of changes could affect the investment return. It is prudent to review how the contract handles these issues before deciding whether to invest.

Legacy Planning

Estate Planning Basics

Your estate comprises all the assets you own, including:

- Bank accounts
- Investments
- Real estate
- Business interests
- Life insurance policies
- Other personal property and valuables

You don't have to own a mansion on the hill to have an estate, and you don't need to be wealthy to have a need for estate planning.

Why Is Estate Planning Important?

Without an estate plan in place, you would be giving up control of the distribution of your assets. This might result in your assets passing to unintended beneficiaries, such as the government in the form of taxes.

Goals of Estate Conservation

- Manage wealth during your lifetime
- Distribute assets upon your death
- Maintain control of your assets

Wealth management is at the heart of a sound financial program. There are steps you can take during your lifetime that may benefit and help protect the beneficiaries of your estate. By choosing the appropriate strategies and distribution methods, you can make arrangements for the organized and efficient distribution of your estate assets, while maintaining the level of control that appeals most to you.

Benefits of Estate Conservation

Taking the necessary steps to conserve your estate offers a number of important benefits. First, you can help avoid conflict between your family members. If all your assets are accounted for and your wishes are spelled out in detail, the chance that anyone will contest your estate plans will be reduced.

Second, you can avoid the delays of probate and other proceedings by addressing these issues while you're alive, rather than forcing your heirs to endure some drawn-out procedures after you're gone.

And finally, you can avoid some legal and court expenses by having a well-organized estate with properly drafted legal documents.

Legacy Planning

Finding a Qualified Attorney

An attorney can be an essential member of your estate team. You should choose a qualified estate planning attorney who has an understanding of federal and state tax laws, as well as elder law.

Important Estate Documents

These are some of the documents that typically make up an estate plan. It's important to keep them up-to-date and in a secure location that is known to family members and/or trusted professionals.

Power of attorney. Gives a trusted individual the power and authority to act on your behalf in legal and financial matters. Keep in mind that some power-of-attorney agreements will not be applicable to a disability or an incompetency. To accomplish that, you will need additional agreements. You should consider including one or more of them as part of your estate conservation efforts.

Durable power of attorney. Enables you to name a trusted individual to act on your behalf even in the event that you become disabled or incapacitated. This person would make investment and other financial decisions that would affect your overall estate until you recover.

Medical durable power of attorney. Outlines your preferences for forms of medical treatment and enables you to name an individual who would have the authority to make medical decisions for you if you are unable to make them yourself.

Living will. Outlines which medical procedures you will allow in the event of a debilitating or chronic illness. A living will is most often used to authorize termination of artificial life support in the event of a terminal illness.

Will. Provides instructions detailing how you want your estate to be distributed.

Trusts. Allow you to hold assets for the benefit of another individual and can help preserve and distribute your estate.

Laws governing each of these documents can vary significantly from state to state, so it would be wise to become familiar with the laws of your particular state.

Estate Conservation Challenges

Probate

Taxes

Probate

Probate comprises the court proceedings that conclude all the legal and financial matters of the deceased. The probate court acts as a neutral forum in which to settle any disputes that may arise over the estate. Probate can be helpful in that it provides court supervision of assets and distribution, which could help insulate the personal representative of the estate from liability. In addition, the probate process can clear up issues with creditors so that assets can pass to beneficiaries more smoothly. However, there are also drawbacks to the probate process.

Probate can be expensive. Depending on the state, probate and administrative fees may consume a significant percentage of the gross estate. That percentage is calculated before any deductions or liens are taken out.

Probate can take a long time. Generally, probate takes anywhere from six months to a year or more. The more complex your estate, the longer it could take.

Probate offers no privacy. The proceedings of the probate courts are public record. This means your heirs will have no privacy. Almost anyone can go down to the county courthouse and find out the contents of your estate and how it was distributed.

Estate Taxes

Tax legislation over the years has increased the amount of an estate that is excluded from federal estate taxes. Since enactment of the 2010 Tax Relief Act, the federal estate tax exclusion has been $5 million or more. The American Taxpayer Relief Act of 2012 made the $5 million exclusion amount permanent (indexed annually for inflation) and increased the top federal estate tax rate from 35% to 40%.

The Tax Cuts and Jobs Act, signed into law in late 2017, nearly doubled the federal estate tax exclusion amount. In 2018, the exclusion is $11.18 million ($22.36 for some married couples). After 2025, the tax law's provisions expire, and the exclusion is scheduled to revert to its 2017 level (indexed for inflation).

Because of the high federal estate tax exclusion amount, very few estates are subject to federal estate taxes. But when combined with possible state inheritance/estate taxes, income taxes, and excess accumulation taxes, some large estates could be greatly impacted by taxes.

History of Estate Taxes

The estate tax was first established in 1797 to help fund a naval buildup. Since then it has been abolished and reinstated five times.

Source:
Joint Committee on Taxation

State Estate and Inheritance Taxes

Many states and the District of Columbia have an estate tax and/or an inheritance tax, with top tax rates ranging from 12% to 20%. Further, most states have exclusion amounts well below the federal level, ranging from a high of $11.18 million to a low of $500. Generally, assets are taxed in one's state of residence at the time of death.

In states with low state estate tax exclusion levels, even people who might not consider themselves wealthy could be subject to state estate taxes. As with federal taxes, state estate taxes do not apply to assets left to a surviving spouse.

Source: The American College of Trust and Estate Counsel, September 17, 2018

Spousal Rights to Qualified Plan Assets

According to federal law, your spouse must be named as primary beneficiary of your 401(k) or other qualified retirement plan, unless he or she signs a written waiver (witnessed by a notary public or plan representative) consenting to your choice of another beneficiary.

Basic Estate Tax Concepts

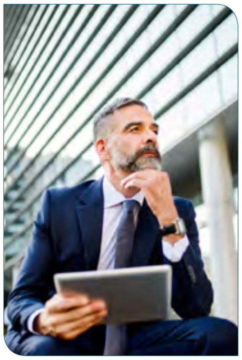
- Unlimited marital deduction
- Federal estate tax exclusion
- Portability of exclusion between spouses
- Annual gift tax exclusion
- Step-up in basis vs. carryover basis rules

Unlimited Marital Deduction

The federal government excludes all transfers of wealth between spouses from federal estate and gift taxes (as long as the recipient spouse is a U.S. citizen). This means that, regardless of the size of the estate, no federal estate taxes will be levied when one spouse dies and leaves his or her wealth to the surviving spouse.

However, this benefit may turn into a mixed blessing for couples who have substantial net worth, as it may inhibit them from taking maximum advantage of the unified gift and estate tax credit.

Federal Estate Tax Exclusion



The federal estate tax exclusion essentially shelters a portion of an estate from federal estate taxes. If the total value of an estate is less than the applicable exclusion amount and you have made no taxable gifts, no federal estate taxes are due.

This chart shows how the federal estate tax exclusion and the top estate tax rate have changed over the years as a result of various tax laws. This exclusion is used against taxable gifts you make while alive as well as your taxable estate at death. If you make taxable gifts, the exclusion available at death is reduced. The top estate tax rate of 40% has been in effect since 2013.

Year	Exclusion amount	Top tax rate
2007–2008	$2,000,000	45%
2009	$3,500,000	45%
2010	$0 or $5,000,000	0% or 35%
2011	$5,000,000	35%
2012	$5,120,000	35%
2013	$5,250,000	40%
2014	$5,340,000	40%
2015	$5,430,000	40%
2016	$5,450,000	40%
2017	$5,490,000	40%
2018	$11,180,000	40%
2019	$11,400,000*	40%

*The 2019 exclusion amount is projected.

The Tax Cuts and Jobs Act nearly doubled the applicable exclusion amount — from $5.49 million in 2017 to $11.18 million in 2018.

The exclusion amount will be indexed annually for inflation through 2025, after which the tax law's provisions expire and the exclusion will revert to the 2017 level (adjusted for inflation), which is about half of the 2018 exclusion amount.

Portability of Exclusion Between Spouses

Since passage of the 2010 Tax Relief Act, married couples have been able to take advantage of "portability" of the federal estate tax exclusion between spouses.

Surviving spouses who make the appropriate election (and meet the filing deadline) on a deceased spouse's estate tax return may be able to use the deceased spouse's unused estate tax exclusion in addition to their own applicable exclusion amount. This could enable a married couple to exclude from federal estate taxes up to twice the amount of the individual applicable exclusion without the use of a bypass trust.

However, portability is not automatic. The executor must make an election to transfer the first spouse's unused exclusion to the surviving spouse by filing an estate tax return when the first spouse dies, even if no estate tax is due. If the executor does not file the return or misses the filing deadline, the surviving spouse loses the right to portability.

Sale of Principal Residence

A married couple may exclude up to $500,000 of profit from the sale of a principal residence — one they have lived in for at least two of the last five years. A surviving spouse may also exclude this amount if the sale occurs within two years of the other spouse's death.

A single individual may exclude up to $250,000 of profit from the sale of a principal residence.

Potential Pitfalls to Portability

Even though portability of the federal estate tax exclusion between spouses can be advantageous, there are a few potential pitfalls to consider.

If you are predeceased by more than one spouse, the unused applicable exclusion of an earlier spouse could be lost. That's because you use the unused applicable exclusion amount (if any) of your last deceased spouse. This may be another factor to consider when planning for remarriage.

The unused applicable exclusion amount that you transfer to your surviving spouse is not indexed for inflation after you die. If the property you transfer to your spouse appreciates after your death, the value of such property in your spouse's estate could exceed your unused applicable exclusion amount and could result in estate tax. With an A-B trust arrangement, appreciation of property in the B trust (the trust created after your death) would be sheltered by your applicable exclusion amount.

In order to take advantage of the unused applicable exclusion election, an estate tax return must be filed even if estate tax is not owed.

Annual Gift Tax Exclusion

Another exception to federal estate taxes could prove to be very useful. The annual gift tax exclusion lets you transfer up to $15,000 per person per year to any number of individuals free of federal estate and gift taxes. This means if you and your spouse agree, you could jointly transfer up to $30,000 annually to each of your children, grandchildren, or anyone else. Amounts that exceed this annual exclusion are subject to the gift tax or would begin to deplete your estate and gift tax exclusion.

Gifts don't have to be outright gifts of cash. For example, you can give assets with low current values and high appreciation potential — such as shares of stock. However, if the recipients sell the assets, they may incur capital gains based on the original cost.

Because the federal estate tax and gift tax exclusions are unified, individuals can make lifetime gifts up to $11.18 million in 2018 ($22.36 million for some married couples) before the gift tax is imposed.

Step-Up in Basis vs. Carryover Basis Rules

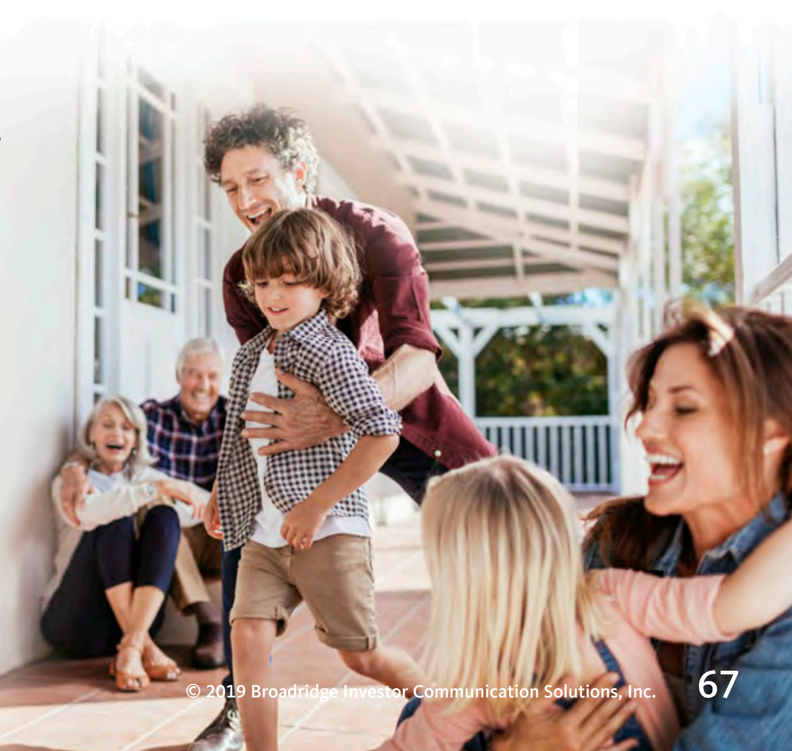
The step-up in basis refers to the way in which some inherited assets are valued for tax purposes. For appreciated assets (such as property or shares of stock) held until death, the recipient's basis in the inherited property is stepped up to the asset's fair market value as of the decedent's date of death.

So if you originally purchased a piece of property (not a primary residence) 20 years ago for $100,000 and sold it for $500,000, you would owe capital gains tax on the $400,000 of appreciation. On the other hand, if you held the property until death, your basis in the property would be stepped up to $500,000, its fair market value. If your heirs later sold the property for more than $500,000, they would owe capital gains taxes only on the appreciation since the time of your death.

Some inherited assets, such as cash and tax-deferred retirement plan assets, do not receive a step-up in basis.

The step-up in basis rules do not apply to gifts, which are subject to the carryover basis rules. Using the previous example, if you gave the property away to your children before you died, the basis of the property would be your original $100,000 purchase price. If your children sold the property for $500,000, they would owe capital gains taxes on $400,000 of appreciation.

This means when planning your estate, you might consider whether to keep appreciated assets rather than gift them to your family outright during your lifetime.



Legacy Planning

Distribution of Assets at Death

There are three basic ways in which your estate can be distributed among your heirs:

1. Do nothing (intestacy)
2. Have a will drawn up
3. Use a trust to pass along assets

Even though it is 100% certain that everyone will die at some point, you might think that everyone would have an estate plan. But the fact is, that is not the case.

What happens if you die with no estate plan? If you own property jointly, your interest in that property may pass automatically to the surviving joint owner(s) upon your death. If you have an IRA or a retirement plan, or you own life insurance, funds may pass automatically to your designated beneficiaries when you die.

In general, however, property will pass according to state intestacy laws. These laws govern the disposition of property when someone dies without a will, or with a will that doesn't account for a portion of his or her estate.

Problems with Intestacy

Dying without a will is called dying "intestate." There are four main problems with intestacy.

First, the courts won't have anything to work from in determining your desires, so your estate will be distributed according to the intestacy laws of your state. The courts may not take into account how you would have settled your affairs.

Second, by dying intestate, you have done nothing to reduce or eliminate the fees and taxes brought on by your demise. If your estate exceeds the applicable exclusion amount, federal estate taxes may be due.

Third, your estate may go through a long, expensive probate process. In many cases, your heirs may have to wait six months to a year or longer.

Finally, if you haven't named a guardian for your minor children, guardianship will be determined by the court without your input.

Jointly Held Property

The way in which you hold title to property will affect how your assets are distributed upon your death. This can be especially important in second marriages or in families with more than one set of children.

Joint tenancy: When any joint tenant dies, his or her interest passes automatically to the surviving joint tenant(s).

Tenancy by the entirety: This form of ownership is only between married couples and may not be available in every state. Each spouse has a right to survivorship, and neither spouse can sell assets without the other's consent.

Tenancy in common: Each co-owner owns a specified percentage of the whole. There is no right of survivorship.

Community property: All property earned or acquired by either spouse during the marriage is owned in equal shares by each spouse. There are no restrictions on how each spouse can give away his or her half of the community property.

Will

A will is simply a list of instructions to the probate court that tells the judge exactly how you would like your estate to be distributed upon your death. If the probate court upholds your will, the court uses it in overseeing the distribution of your property to your heirs.

An improperly drafted will that does not hold up in court will be of little comfort to your loved ones. That's why it is so important to consult with a qualified estate planning attorney who is familiar with the laws of your state.

A will enables you to leave your property at death to anyone you choose: a surviving spouse, a child, other relatives, friends, a trust, or a charity. Transfers through your will can take the form of:

- Specific bequests (for example, heirlooms, jewelry, furniture, cash)
- General bequests (a percentage of your property, for example)
- Residuary bequest (what's left after your other transfers)

There are some limits on how you can distribute property using a will. For instance, your spouse may have certain rights, regardless of the provisions in your will. Also, assets in some types of accounts for which you have already named a beneficiary will pass directly to the designated beneficiary, avoiding probate.

In many states, a will is the only way to specify someone to act as the legal guardian for your minor children if you die. In some cases, a will may help you minimize the fees and taxes due upon your death. But because a will is essentially a list of written instructions to the probate court, it ensures probate.

Premarital Agreement

A will may have limitations in some nontraditional family groups, such as second marriages. For example, if you want to leave your estate to your children from a previous marriage, a will alone may be insufficient as the sole estate conservation strategy — especially if it is challenged by your spouse. In fact, most states require that your current spouse receive a certain portion of your estate, often based on the length of the marriage.

A premarital agreement may be one solution to help ensure that your estate is distributed as you intended. Careful drafting of the estate documents is also very important.

Beneficiary Forms May Override Your Will

The assets in most retirement plans, pensions, and life insurance policies convey directly to the people named on the account beneficiary forms — even if they are different from those named in your will — and do not go through probate.

That's why it is essential to keep your beneficiary designations up-to-date, especially if there have been changes in your life, such as the birth of a child or grandchild, a death in the family, a divorce, or a remarriage.

Legacy Planning

Trust

A trust offers another technique to control the distribution of your estate. A trust can be defined as a legal arrangement under which one person or institution controls property given by another person for the benefit of a third party.

Impact of Divorce

Depending on state law, a divorce decree may revoke some or all of a will. If you go through a divorce, you need to review the laws in your state and consider having a new will drawn up, especially if you face custody issues.

Many people never investigate trusts because they are under the impression that trusts are only for the truly wealthy. That's not necessarily so. The use of a trust may help reduce fees. Some trusts, if properly structured, can completely avoid probate. Because trusts offer some unique advantages over other estate conservation methods, they may be the answer to many of your estate conservation needs.

Several parties can be involved in a trust:

Grantor (trustor): the person giving the property

Trustee: the person controlling the property

Beneficiary: the person for whom the trust operates

Generally, you are allowed to be the grantor, the trustee, and the beneficiary of a trust simultaneously — although laws do vary from state to state.

Upon your death, debts are paid by the trust and the trust assets are distributed to your heirs according to your written instructions. In this way you can maintain complete control of the distribution of your assets.

The use of trusts involves a complex web of tax rules and regulations and usually involves upfront costs and ongoing administrative fees. You should consider the counsel of an experienced estate conservation professional before implementing a trust strategy.

Types of Trusts

- **Testamentary trusts** take effect upon your death, at which point they become irrevocable.
- **Living trusts** are established while you are still alive. They can be either revocable or irrevocable.

Both types of trusts are dissolved when all the assets in the trust have been distributed to the beneficiaries according to the terms of the trust.

Testamentary Trust

- Established through a will
- Effective upon death of grantor
- Ensures probate
- May help minimize estate taxes

A testamentary trust is usually established by a will upon your death. The assets in your estate will still go through probate, with all the costs and delays the probate process can bring, after which they will be placed in the testamentary trust. Once the terms of the trust are fulfilled, the assets will pass to your beneficiaries.

Although testamentary trusts will not bring about any immediate estate or income tax savings upon your death, they can be very useful in minimizing estate taxes as the property passes to beneficiaries.

Living Trust

- Set up and funded during your lifetime
- Can help manage fees and taxes
- May avoid probate, if the trust is properly structured

When you set up a living trust, you transfer the title of all the assets you wish to place in the trust from you as an individual to the trust. Technically, you no longer own any of the transferred assets — everything belongs to the trust — so there is no longer anything to probate when you die.

A revocable living trust can be dissolved or amended at any time while you (the grantor) are alive. You can sell the assets, change beneficiaries, and even change the terms and conditions of the trust. This type of trust is used primarily for property management and to avoid conservatorship and probate. There are no direct tax benefits associated with it.

An irrevocable trust, on the other hand, cannot be modified or revoked. It provides the benefits of a revocable trust along with the potential for estate tax savings. Once property is placed in the trust, future appreciation of that property will not be included in your estate, unless you retain certain interests in the trust.

Special Needs Trust

If you have a child or other loved one in your family with special needs, you may want to establish a special needs trust. This estate planning tool can help provide for the needs of an individual who is disabled without jeopardizing his or her eligibility for government benefits. A qualified attorney can help you establish and administer this type of trust.

Advanced Trust Strategies

Several advanced trust strategies can be used to help reduce federal estate taxes on your estate:

- Bypass (A-B) trust
- Life insurance trust
- Charitable trust

Time to Revisit Outdated Trusts

If you have an old trust that was created when the estate tax exclusion was much lower than it is today — the exemption was only $1.5 million in 2004 — you may need to review your strategy.

For example, when you or your spouse dies, the trust could move a large amount of money into a bypass trust that the surviving spouse cannot access without asking a trustee for permission or consent. The original terms of the trust must be upheld, regardless of whether the tax law changed the exclusion threshold.

Why Consider a Bypass Trust?

The purpose of a marital and bypass trust combination (A-B trust) is to enable both spouses to take advantage of their federal estate tax exclusions upon their deaths, which shelters more assets from federal estate taxes.

Before the federal estate tax exclusion was made portable in 2011, some estate planning — typically creation of an A-B trust — was necessary to ensure that both spouses could take advantage of their combined estate tax exclusions. But now that portability of the federal estate tax exclusion between spouses is permanent, it's possible for the deceased spouse's unused exclusion to be transferred to the surviving spouse without creating a trust.

Even so, many states and the District of Columbia still have their own estate and/or inheritance taxes, and some have exclusions that are lower than the federal exclusion amount. By funding a bypass trust up to the state exclusion amount, the exclusion amount of the first spouse who dies can be sheltered from the state estate tax.

In other words, a marital and bypass trust may still be useful, not only to preserve a married couple's state estate tax exclusions but also to:

- Shelter appreciation of assets placed in the trust
- Protect the assets from creditors
- Benefit children from a previous marriage
- Help avoid probate

However, in many cases when a married couple has combined estate assets of $22.36 million or less (in 2018), they might be better off just leaving everything outright to each other.

Legacy Planning

Irrevocable Life Insurance Trust

Many families use life insurance to help cover estate taxes, probate fees, and administrative costs. Life insurance policies can offer liquidity, income-tax-free death benefits, flexibility, and tax-deferred cash value growth. But if you own the policy or it is payable to your estate, the proceeds of your policy will generally be included in your taxable estate.

Using an irrevocable life insurance trust (ILIT) can:

- Help eliminate estate taxes
- Keep proceeds out of the estate
- Provide ready cash to pay estate taxes and other expenses

To use this strategy, you should consult with your legal counsel. An attorney drafts the trust document, which you then sign. You fund the ILIT and the trustee uses the money to purchase a life insurance policy that is owned and controlled by the ILIT.

Usually, you would gift additional money to the trust each year, and the trustee would use the money to pay premiums on the policy. When you (the insured) die, the life insurance proceeds are paid to the trust, and the trustee distributes the proceeds according to the terms of the trust. The proceeds can be used to help pay taxes and other expenses and to provide for your beneficiaries. And, more important, the proceeds of the policy will not be taxed in the estate.

Keep in mind that once the ILIT is created, you cannot change the terms or the beneficiaries of the trust, and you must give up control of the insurance policy. Individuals insured under policies owned by the trust cannot serve as a trustee. All life insurance premiums must be paid by the trust.

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications. Before implementing a strategy involving life insurance, it would be prudent to make sure that you are insurable.

Impact of Long-Term Care

Most people don't think about long-term care as an estate planning issue, but it could become one, particularly for heirs.

What would happen to your intended legacy if you or your spouse needed long-term care for a long period? An extended stay in a nursing home could quickly deplete the value of your estate.

Legacy Planning

Last-Survivor Life Insurance Policy

- Insures two or more individuals
- Pays benefit upon death of the last-surviving insured party
- Premiums are often lower than the cost of two (or more) individual policies

Unlike traditional life insurance policies, a last-survivor life insurance policy insures two or more individuals (often a married couple), with the beneficiaries being the children or other heirs.

Because the policy pays the benefit only after the death of the last-surviving insured party, the premiums are often lower for this type of policy than they would be for the cost of two (or more) individual policies.

For your heirs, the advantage of receiving the benefit when the last-surviving party dies is ready cash to help pay estate taxes and other financial obligations. This could help preserve a larger portion of the estate for them and or leave a lasting legacy.

If you plan to make a charitable gift, you might want to learn more about the charity's operations, including the percentage of contributions that go toward charitable work versus administration and fundraising expenses.

If you are going to itemize deductions, make sure the charity is qualified under IRS rules. You can search the IRS database at ***irs.gov/Charities-&-Non-Profits/Exempt-Organizations-Select-Check***.

Charitable Giving

Charitable giving can benefit both the giver and the receiver. There are a number of tax advantages associated with charitable giving — some could benefit you during your lifetime, and others may benefit your estate and heirs.

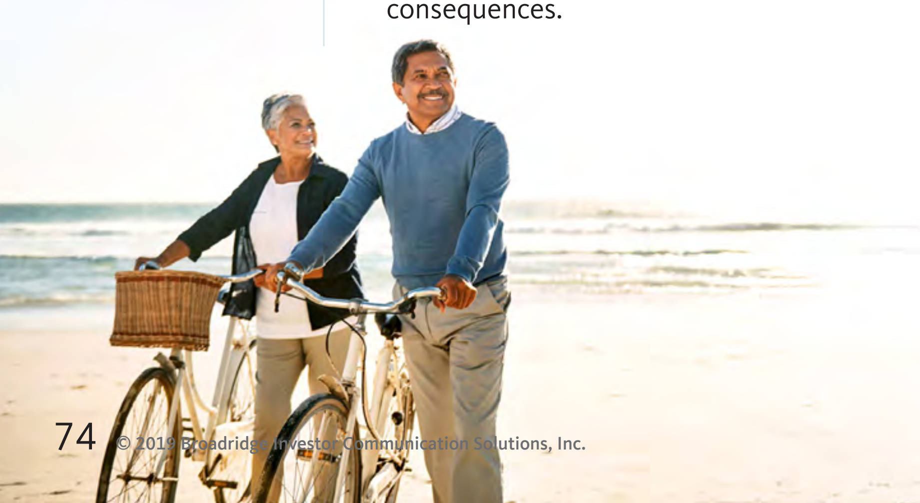
Outright gift. If you make an outright gift to a charitable organization, the gift may be tax deductible (within certain limits) if you itemize deductions on your tax return.

To receive the deduction for donations made using cash, a check, or a credit card, you must have documentation, such as a receipt, canceled check, credit-card statement, or a written communication from the charitable organization showing the amount of the contribution, the date it was made, and the name of the charitable group. Noncash gifts generally require even more substantiation.

Strategic giving. Giving strategically using a trust can benefit both you and the charitable organization, as well as your heirs:

- May enhance the value of your gift to charity
- Could help reduce your income tax liability
- May generate income during your lifetime
- May help you leave a greater legacy

The method you choose will have different income tax, gift tax, and estate tax consequences.



Legacy Planning

Charitable Giving Strategies

There are tax benefits associated with any donation to a qualified charity, but you can use a trust to recoup more than just a tax deduction. The type of trust that might be appropriate for you depends on what you hope it to accomplish.

Charitable remainder trust (CRT). A CRT offers a way for you to donate appreciated property and still retain an income interest in your donation. When you transfer assets to the trust, naming the charitable organization as the beneficiary, the full appreciated value of the assets is preserved because the trust is not subject to the capital gains tax that you would have to pay if you sold the assets yourself. And with a CRT, you can receive payments during your lifetime as long as the charitable organization gets the remaining assets after you pass away. Distributions received from the trust may be taxable.

Charitable lead trust (CLT). This alternative gifting strategy enables you to donate the income from a charitable gift while retaining ownership of the property. The charity receives payments from the assets placed in the trust while you are living, and then the assets eventually return to your beneficiaries at a specified time or upon a specified condition.

Types of CRTs

A CRT can be an *inter vivos trust* funded during your lifetime or a *testamentary trust* funded at your death for the benefit of your heirs.

There are two types of charitable remainder trusts: a charitable remainder annuity trust (CRAT) and a charitable remainder unitrust (CRUT). Both make regular payments, but the income they provide can be fixed with a CRAT or variable with a CRUT.

Which Charitable Strategy Might Be Appropriate?

Type of gift	Advantages	Disadvantages
Outright gift	• Tax deductible if you itemize deductions	• Not tax deductible if you use standard deduction • No retained interest
Charitable remainder trust	• Provides income for a set term • Potential immediate, partial income tax deduction • Potential reduction in estate tax liability • Avoids capital gains tax on highly appreciated property	• May limit family's inheritance • Trust income does not adjust for inflation • Irrevocable decision
Charitable lead trust	• Retain ownership of assets placed in the trust; assets eventually return to your family or beneficiaries • Helps reduce or eliminate gift or estate taxes	• Lose current income from assets during life of the trust • Not tax exempt... you may owe capital gains taxes on assets sold by the trust • Irrevocable decision

Legacy Planning

Providing for Your Heirs

- Draft appropriate legal documents
- Prepare a letter of instruction
- Choose a personal representative

It is important to have the appropriate legal documents in place that apply to your family's specific situation. So make sure you have the legal documents that will enable you to manage and distribute your estate according to your wishes. In addition to wills and trusts, you may need powers of attorney, a living will, and other legal documents to help ensure that your intentions are carried out.

Be sure to prepare a letter of instruction. Although a letter of instruction doesn't have the legal effect of a will, it can help bring clarity and order to a complicated and often confusing process after your death. Keep your letter of instruction in a safe yet accessible place and tell your loved ones, the executor of your estate, and/or other trusted individuals where to find it.

It's also wise to review your legal documents and letter of instruction regularly and update them as appropriate.

Widowhood

Women are nearly three times more likely than men to become widowed. About one-fourth of women who become widows are under age 65.

Source:
U.S. Census Bureau, 2017

What you might want to address in a letter of instruction
Financial accounts and account numbers, including online user names and passwords. If you prefer not to write down user names or passwords, the executive of your estate should be able to access accounts with the account numbers and your Social Security number.
List of documents and their locations, including (but not limited to) your will, insurance policies, tax returns, bank and investment account documents, real estate deeds and mortgage documents, vehicle titles, Social Security and Medicare cards, marriage and/or divorce papers, and birth certificate.
Contact information for professionals who handle your financial and legal affairs, such as your attorney, financial advisor, insurance agent, and accountant. Also include others who may be helpful, such as a business partner or trusted friend.
Bills and creditors, including when payments are due and other pertinent information, such as loan terms and balances as of the date of the letter.
Your final wishes for burial or cremation, a funeral or memorial service, organ donation, an obituary, charitable contributions in your memory, and people to be
Personal thoughts or life lessons that you want to pass on to your family.

Legacy Planning

Choosing a Personal Representative

A personal representative (executor) is the person you designate to carry out the directions and requests of your will. The demands of being a personal representative can be challenging and time-consuming. You generally want to choose someone who is up to the challenge and has the time and resources to see that your wishes are carried out.

You also want to choose someone who is capable of overseeing an attorney, negotiating fees, and controlling the process to ensure it goes smoothly. By choosing a spouse or a friend, you may be able to help reduce administrative costs. And by naming a successor executor, you can help ensure that your affairs will be taken care of, even if your initial executor passes away before you do.

Time Will Not Wait

Procrastination is the bad habit of putting off until the day after tomorrow what should have been done the day before yesterday.

— Napoleon Hill

Source: BrainyQuote.com

Review Your Estate Plans Periodically

Just as you need to review your retirement plan periodically, you also need to revisit your estate plan. An annual review might be a good approach.

Tax laws often change. Provisions in the Tax Cuts and Jobs Act affecting individuals expire after 2025.

The composition of your holdings and the value of your assets may change. Although you might not think the size of your estate is large enough today to worry about estate planning, especially considering that the high federal estate tax exclusion amount, there's a strong possibility that the value of your assets will increase over time.

Your family situation could change. Consider what might happen in the future: the birth of children or grandchildren, marriage, even a divorce. It is important to keep your will, your trusts, and your beneficiary designations current so your assets will go to the people you want to have them.

Keep in mind that estate tax rules and regulations can be very complex. Estate planning is too important to attempt it yourself without professional assistance, and a small mistake could tie up your estate for years.

Four Pillars of a Successful Retirement

Tax Planning | **Social Security** | **Income Strategy** | **Legacy Planning**

Working with a Financial Professional

Discussing your financial needs and goals with a professional could motivate you to save more, invest wisely, enhance your Social Security benefits, manage your tax liability, and help protect wealth.

Although there is no assurance that working with a financial professional will improve investment results, a financial professional can help you focus on your overall financial objectives, provide education, identify strategies for taking control of many financial situations, and help you consider opportunities that could have a substantial effect on your long-term financial situation.

Once you have well-planned financial strategies in place, you have laid a foundation for your life and can rest easier that you and your family will be prepared for the future.

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