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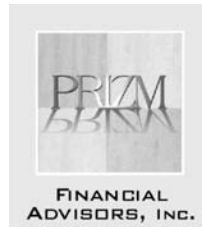
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# PRIZM PERSPECTIVE

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## Create Your Own Retirement Income Strategy

According to a McKinsey 2006 Consumer Retirement Survey, 40% of early 21st century retirees were forced to retire between the ages of 54 to 59, right after a dramatic market correction. If it's not bad enough losing your job,

imagine taking a look at your statement balances and learning that you have lost one-third or more of your lifelong investments.

In today's market, financial services companies are now busy "financially engineering" new products.

Will the right retirement income solution come down the product development pike soon enough for the masses of ill-prepared baby boomers? If it does, will it be simple enough to understand?

Finance and insurance products are becoming so complex that the technical story to explain them can confound many investors. But the main thing to consider is that no solution is right for everyone, and perhaps no single solution is right for anyone.

### Customized Financial Engineering

Consider calling so that together, we can perform your own financial engineering—based on your individual needs. Consider how much money you have now and how much more you can reasonably expect to save before retirement, given today's variable employment and market environment. Where is your money now, and would it provide a better long-term result in other vehicles?

### Product Allocation Tools

Dr. Moshe Milevsky, finance professor at the Schulich School of Business in Toronto, and President and CEO of The QWeMA Group,

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## Staggered Retirements

Often, spouses don't retire at the same time. Keep these points in mind if you are in that situation:

- **Try to minimize withdrawals from retirement accounts.** Although you will only have one salary instead of two, it's best to minimize withdrawals while one spouse is working. It's a good opportunity to test your retirement budget and try to reduce your expenses.
- **Utilize all available benefits from the working spouse's employer.** One of the most significant retirement expenses, especially if you don't qualify for Medicare, is health insurance. So, before one spouse retires, find out if that spouse is eligible for health insurance benefits.
- **Delay Social Security benefits.** Especially if you are retiring before full retirement age, it typically makes financial sense to delay Social Security benefits. For a significant number of married couples, the man is older, has higher earnings, and will not live as long as the woman. Because the surviving spouse can elect to receive 100% of the other spouse's benefits, it typically makes sense for the man to wait until age 70 to claim Social Security benefits to provide his wife with the highest possible benefits after his death.
- **Consider all defined-benefit plan payment options.** If you are lucky enough to be covered by a traditional pension plan at work, make sure to consider all the payment options carefully before selecting one. Typically, you will have numerous options, but your choice will be irrevocable. ○○○

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## Create Your Own

*Continued from page 1*

notes that as boomers move closer to and into retirement, product allocation will play a greater role in retirement planning success or failure. "It isn't the investor with the most money who necessarily has the best retirement nest egg," Dr. Milevsky explained, "it's the type of investment products that they own in retirement — product allocation as well as asset allocation — including the types of protections and guarantees that will determine their financial success or failure after they retire."

According to Milvesky, as you get closer to retirement and once you are in retirement, it is prudent to consider limiting your downside exposure in exchange for giving up some upside potential as you transition to the income distribution phase. He differentiates between a simple tax-sheltered retirement savings plan and a pension-like product allocation strategy.

Product allocation is basically the strategy of transferring some of the risk in a retirement portfolio to an entity (such as an insurance company) that is better able to manage that risk in exchange for limiting the upside potential of your portfolio. While asset allocation typically comprises investments that range from safe (fixed) to risky (variable), product allocation ranges from conven-



tional savings vehicles to annuitized payout instruments.

Some of the "products" you may wish to consider to customize your financial engineering include a systematic withdrawal plan (SWiP), lifetime income annuity, life insurance, long-term care insurance, and a variable annuity with a guaranteed income rider.

### Product Allocation Strategy

When determining the portions of your product allocation, the following considerations should be taken into account:

- Your tolerance for market risk
- Your age
- A ballpark estimate of your life expectancy, based on your health and family history
- Actuarial life expectancy rate based on the overall population
- The amount you expect to spend in retirement for essential and discretionary income
- Desired value of the inheritance you wish to leave behind
- The risk and return characteristics of risky and risk-free assets

According to *Lifetime Financial Advice: Human Capital, Asset Allocation, and Insurance*, a 2007 report by The Research Foundation of CFA Institute, pension-like vehicles are regarded as "longevity insurance"— that which guarantees income for as long as you live.

The report cites that as much as 75% of retirement income can and should be longevity insured. If you have a defined-benefit pension and/or substantial Social Security benefits, a large portion of retirement income may already contain this brand of "longevity insurance." Longevity risk can also be hedged by purchasing immediate annuities, which pay out income each year for the rest of your life.

The key to product allocation is to determine how much of your portfolio should contain longevity insurance in the form of pension annuities,



and how much of your portfolio should be allocated to variable, non-insured products, such as systematic withdrawal plans. The variable allocation of your portfolio may need to include stocks, bonds, and fixed and variable annuities in order to provide growth potential to offset inflation.

And finally, consider purchasing life insurance as part of your inheritance plan, so that your current assets are free to work harder for your retirement income needs.

### 21st Century Retirement

To help you better manage market risk, both in today's market and to economy-proof your portfolio for the future, we should work together to carefully consider the optimal financial asset allocations that best suit your financial objectives and situation.

While asset allocation is a 20th century concept, product allocation may well be the call of the future. For market downswings...for the investor forced to retire during a correction...for the security of long-term income not just for you, but also for the spouse who may outlive you — call today to talk about how to forge your own retirement income plan using a broad product allocation portfolio. ○○○

## Avoid These Withdrawal Mistakes

**D**uring your working years, your emphasis was to accumulate as much as possible for retirement. But as you near retirement age, you need to start thinking about how to withdraw those funds to maximize your income. To help accomplish that, avoid these mistakes:

- **Not understanding all available options.** Each retirement option has different tax and plan rules regarding withdrawals. Review all your options to select the best choice for your circumstances. In many cases, your selection will be irrevocable.
- **Not using reasonable estimates to calculate your withdrawal amounts.** The amount you should withdraw annually can be calculated based on how much principal you want remaining at the end of your life, your life expectancy, your expected long-term rate of return, and your expected long-term inflation rate. If you don't use conservative estimates, you run the risk of depleting your assets before you die. Even with conservative estimates, review these factors annually.
- **Not withdrawing funds in a tax-efficient manner.** Before beginning withdrawals, review all your retirement assets to determine the most tax-efficient strategy for withdrawals. This can add years to the life of your retirement funds.
- **Retiring early without considering the financial implications.** Retiring even a few years earlier than planned can significantly impact the amount needed for retirement. Make sure you'll have sufficient funds for your entire retirement first.
- **Taking a lump-sum distribution in your name.** When rolling over a lump-sum distribution from a 401(k) plan or other qualified plan, transfer the funds directly to your new account's trustee.

Otherwise, your former employer will withhold 20% for taxes when the funds go directly to you. You will then have to replace the 20% from your own funds within 60 days, or the 20% withholding will be considered a distribution subject to income taxes and possibly the 10% federal penalty.

- **Not taking required minimum distributions.** Once you reach age 70½, you must take required minimum distributions from traditional IRAs and other qualified plans or pay a 50% excise tax on the amount you should have withdrawn. If you are still working, you can delay withdrawals from

qualified plans, but not from traditional IRAs, until you retire.

- **Not selecting proper beneficiaries.** The proper selection of beneficiaries can make a significant difference in the amount of taxes owed when you die.
- **Not seeking advice.** Determining how much to withdraw from your retirement investments and the best way to make those withdrawals can be complicated. Since the decisions are often irrevocable and can have a major impact on your retirement lifestyle, seek guidance first. Please call if you need help with these decisions. ○○○

## Using IRAs for Charitable Contributions

**A**s part of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, taxpayers age 70½ and older can still take tax-free distributions, up to \$100,000 in 2011, from traditional and Roth individual retirement accounts (IRAs) for charitable purposes. Without this provision, donors typically find that the income tax deduction for the charitable contribution is not enough to offset the tax bill generated by the IRA distribution. With this provision, the income from the IRA is not included in gross income, and the charitable contribution cannot be deducted on the donor's tax return. To qualify, the distribution must meet these conditions:

- The distribution must be made from an IRA. Distributions from 401(k) plans, SEPs, and SIMPLE plans do not qualify.
- Charitable contributions must be made to public charities, such as churches, hospitals, museums, and educational organizations. Contributions cannot be made to private foundations, donor advised funds, support-

ing organizations, or split-interest entities.

- The IRA owner must be at least age 70½.
- The distribution must be made directly to the charity. If the IRA owner takes the distribution and issues his/her own check to the charity, it will not qualify.
- The distribution must otherwise be fully deductible as a charitable contribution. Thus, the donor must not receive any benefit from the contribution.
- The distribution must otherwise be included in gross income. Thus, only the taxable portion of the IRA distribution qualifies. If a nontaxable distribution is taken from the IRA, the IRA owner would not have to include the distribution in income and could take a charitable contribution deduction. Qualified distributions from an IRA to charity are deemed to come first from the taxable portion of the IRA, leaving the maximum amount of tax-free dollars in the IRA. ○○○

## Taking Required Minimum Distributions

While the tax code allows you to save money, tax deferred, in retirement plans such as individual retirement accounts (IRAs), 401(k) plans, and other retirement plans, the Internal Revenue Service wants its cut sometime. That's why many holders of most retirement accounts must start withdrawing money at age 70½. The amount that you are required to withdraw is called a required minimum distribution (RMD).

Generally speaking, the RMD applies to all retirement funds except those in Roth IRAs and employer plans like a 401(k) plan for those still working at age 70½ (a 5% owner of the business sponsoring the retirement plan is subject to RMD rules even if still working). Once you retire after age 70½, you must begin taking your RMD from that plan as well.

If you fail to withdraw your RMD, the IRS will impose an excess accumulation tax, which equals 50% of the RMD you failed to withdraw.



To avoid the excess accumulation tax, follow these steps:

- **Determine whether you're required to take an RMD.** For your retirement accounts, you must take your first RMD by April 1 of the year after you turn 70½. If you wait until then (rather than taking your first RMD that same year), you'll have to take another RMD by December 31 of that same year. After that, you'll be required to take your RMDs by December 31 of each following year. For example, if you turn 70½ in 2011, you must take your first RMD by April 1, 2012. Then, you must take your second RMD by December 31, 2012.

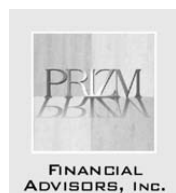
If you've inherited a retirement plan, you're generally required to take an RMD the year after the plan holder's death, unless the plan owner turned 70½ before death. In that case, you're required to take the RMD the same year as the owner's death. Spouse beneficiaries may be able to delay required distributions.

- **Identify all your retirement accounts.** List all your retirement accounts, including employer plans, traditional IRAs, SEP, and SIMPLE accounts. This list will help ensure you calculate your RMD correctly and that you've considered all accounts.

- **Calculate your RMD.** Your total account balance as of the preceding year is divided by your life expectancy to calculate your RMD. The IRS publishes life expectancy tables for this purpose.
- **Create a withdrawal plan.** You don't have to take an RMD from every one of your accounts, as long as your total withdrawal equals the total amount calculated in the previous step. You can group your retirement accounts by account type and take a single distribution from one account in each group. However, you can't cross over between IRAs, 401(k)s, and 403(b)s, for instance. You'll also have to decide whether you want to take your withdrawals monthly, quarterly, or annually.
- **Perform a year-end checkup.** Toward the end of each year, make sure you've identified all your accounts, calculated your RMD accurately, and distributions have been taken. You only have until December 31 to make any necessary adjustments to avoid the 50% excess accumulation tax.

This is just a brief guide to RMDs. Please call if you'd like to discuss the topic in more detail. ○○○

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