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PRIZM PERSPECTIVE

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Reassess Your Retirement Plan

Approximately five years before you plan to retire, thoroughly reassess your retirement plans and ensure that all significant financial pieces are in place. Once you retire, you probably won't have the option of going back to your former job. So before you retire, consider these points:

❍ **Take a serious look at your retirement plans.** You're close enough to retirement that you should have a good feel for your retirement expenses and expected income. While you may be anxious to retire, remain flexible about your retirement date. Working an additional year or two can add substantially to your retirement savings and may boost your retirement benefits.

❍ **Get a fix on your Social Security and pension benefits.** Make sure you know exactly how much you can expect from Social Security and defined-benefit plans. How much will your benefits increase if you delay retirement by one year, five years, etc.? If you retire before full retirement age for Social Security purposes, do you plan on still working? Be aware that for those under full retirement age for Social Security purposes, earnings over $15,480 in 2014 will cause you to lose $1 of benefits for every $2 of earnings over this threshold. Make sure you understand your distribution options for any defined-benefit plans. In most cases, those decisions are irrevocable, so you'll want to take some time to assess those options.

❍ **Determine how much income your retirement investments will generate.** As a general rule of thumb, you can multiply your

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Investing in Your Golden Years

There are so many unknowns: Will Social Security be there when you retire? How long will you live? Will the stock market decline right as you need to make retirement withdrawals? How aggressive should you be with your retirement allocation as you near retirement? As is often the case, the answer is: it depends.

While we can't predict the future of Social Security or how long we'll live, we can take steps to allocate our investments so we have the right balance of stocks, bonds, and cash equivalents for our financial goals. You'll need to consider:

❍ How much you've already accumulated for retirement

❍ How much you can save annually between now and when you retire

❍ How large a portfolio you're going to need based on how much you want to withdraw annually during retirement

Each investor's needs are different, so the strategy that optimizes one person's allocation may not work for the next investor. As a general rule, as you approach retirement age, you'll want to increase the percentage of your portfolio that's invested in bonds. If you have other stable retirement resources, such as pension benefits or Social Security, you may be able to allocate a larger percentage of your portfolio to stocks.

Likewise, if you have a large portfolio with more than you will deplete during your lifetime, you might be able to be more aggressive, since a short-term setback in the market wouldn't seriously affect your ability to make withdrawals from your portfolio. ❍❍❍

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Reassess

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retirement investments by 4% to get an idea of how much you can withdraw annually. You can go through a more detailed analysis, reviewing a wide range of variables for a more precise answer. However, the younger you retire, the more conservative your withdrawals should be, since your funds will have to last for a longer time period.

❍ **Investigate work options.** If you plan to work at least part-time during retirement, have you decided what you'll do and how much it will pay? Make sure you investigate your options, including asking your current employer about part-time opportunities after retirement.

❍ **Finalize living arrangements.** Determine whether you want to stay in your current home or move to another one, either in the same city or a different location. At this point, you should be able to determine whether you'll have a mortgage and how much equity you'll have in your home. While most retirees continue to live in their current home, explore whether it makes sense to downsize, freeing up home equity for investments or retirement income.

❍ **Deal with health insurance and long-term-care costs.** Two of the most significant costs in retirement are medical care and long-term care. Make sure you have plans to deal with both. If you are retiring at age 65 or later, you'll be eligible for Medicare, although a spouse under age 65 will not. You will probably need supplemental coverage with Medicare. If you are retiring before age 65, make sure you know exactly how much coverage will cost you, especially if coverage is not provided by your employer. Now is also a good time to take a look at long-term-care insurance, since premiums get significantly more expensive as you age.

❍ **Live with your retirement budget for a couple of years.** Want to really make sure your retirement budget is reasonable? Try living with your retirement budget for a couple of years before retirement. If you can do so without increasing your debt, you can be reasonably confident that your budget will work during retirement.

Please call if you'd like help assessing your retirement plans before you retire. ❍❍❍

Why Have an Asset Allocation Strategy?

Your asset allocation strategy represents your personal decisions about how much of your portfolio to allocate to various investment categories, such as stocks, bonds, cash, and other alternatives. When stock market returns were above average for an extended period, investors did not have much interest in asset allocation. Then, the best strategy seemed to be to only own stocks. But with the stock market volatility of the past several years, investors are again focusing on asset allocation. Some of the advantages of an asset allocation strategy include:

❍ **Providing a disciplined approach to diversification.** An asset allocation strategy is another name for diversification, an important strategy for reducing portfolio risk. Since different investments are affected differently by economic events and market factors, owning different types of investments helps reduce the chance that your portfolio will be adversely affected by a particular risk type.

❍ **Encouraging long-term investing.** An asset allocation strategy is designed to control your portfolio's long-term makeup. It should not change based on economic conditions or market fluctuations.

❍ **Eliminating the need to time investment decisions.** Market timing is a difficult concept to implement. Not only do investment professionals have a difficult time accurately predicting the market's movements, but waiting for the perfect time to invest keeps many investors on the sidelines. With an asset allocation strategy, you don't have to worry about timing the market, you just have to ensure your investments stay within the proper percentages.

❍ **Reducing the risk in your portfolio.** Investments with higher returns typically have higher risk and more volatility in year-to-year returns. Asset allocation combines more aggressive investments with less aggressive ones. This combination can help reduce your portfolio's overall risk.

❍ **Adjusting your portfolio's risk over time.** Your portfolio's risk can be adjusted by changing allocations for the different investments you hold. By anticipating changes in your personal situation, you can make those changes gradually.

❍ **Focusing on the big picture.** Staying focused on your asset allocation strategy will help prevent you from investing in assets that won't help accomplish your goals. Rather than investing in a haphazard manner, it gives you a framework for making investment decisions.

Your asset allocation strategy will depend on a variety of factors unique to your situation. Please call if you'd like to discuss asset allocation in more detail. ❍❍❍

Make Pension Decisions Carefully

In the past, a retiree typically received a monthly pension check and Social Security benefits. Now, it's not uncommon for a retiree to have a pension plan, a couple of 401(k) plans, some individual retirement accounts (IRAs), personal savings, possibly some deferred compensation, and maybe an annuity. Deciding how to handle all those different income sources in the most advantageous manner is a daunting task. Before making those decisions, consider the following:

Prepare a list of all your retirement assets by type of plan. Indicate the expected monthly income as well as the earliest and latest date you can start taking benefits. Review the payment options available to see if some assets should be used before others.

Decide whether you want to take a lump-sum distribution or receive an annuity. This option is generally offered with 401(k) plans, profit-sharing plans, and some defined-contribution plans. Your decision should be based on the income tax ramifications of the different options, your personal needs, and your financial ability to handle the money.

If you opt for an annuity, you must decide among various payment options. Your payments are generally taxed as ordinary income when received.

You may like the peace of mind that comes with annuities, since you are assured a monthly income without having to worry about investment decisions. However, annuity amounts are typically fixed, so inflation can seriously erode the purchasing power.

A lump-sum distribution gives you the opportunity to invest your retirement funds. Thus, you receive the rewards of smart investment decisions, but you can also suffer from poor decisions. Since you own the funds, proceeds can be left to your heirs after death. The tax treatment of a lump-sum distribution depends on how you handle the distribution. The least favorable alternative is to include all the proceeds in your taxable income in the current year, subjecting the proceeds to your top tax rate and possibly the 10% tax penalty if you are under age 59½.

As an alternative, any portion of your account balance in a qualified plan can be rolled over into an IRA within 60 days. This rollover defers the tax on the distribution and allows it to grow tax deferred until withdrawn. If you are between the ages of 59½ and 70½, you can access the funds as you need them, penalty free, paying ordinary income taxes only as you withdraw funds.

Determine how to withdraw money from your plans. After going through this analysis, you can decide when to start taking distributions. These decisions will take into account your life expectancy, your tax situation, your current income needs, the expected inflation rate, and your expected rate of return on retirement assets. The calculations can quickly become very complex. Since the calculations are so important for your retirement, please call if you'd like help with these decisions. ❍❍❍

Finding Money to Save

Everyone knows that they should be saving at least 10% of their gross income for retirement, but that can seem like an impossible goal after paying all your bills. However, don't just figure that you can't come close to saving 10% of your income without looking at the after-tax cost.

For instance, assume you earn $50,000 annually and your employer matches 50 cents for every dollar you contribute to the 401(k) plan, up to 6% of your pay. So, if you put 6% of your pay, or $3,000, in the plan, your employer will match 3%, or $1,500. Your contribution really costs less than 6%, because the money is taken out before income taxes. If you are in the 25% tax bracket, your $3,000 contribution will save $750 in taxes, or 1.5% of your pay. So, between your contributions and your employer's match, you will contribute 9% of your pay toward retirement, but it will only cost you 4.5% of your pay.

Made over long periods of time, these levels of contributions can help significantly in funding your retirement. If you contribute $4,500 annually starting at age 30, you would accumulate $837,460 by age 65 with an investment return of 8%. *(This example is provided for illustrative purposes only and is not indicative of the return of a specific investment.)*

What if you don't have a 401(k) plan at work? Take a look at individual retirement accounts (IRAs). While you won't get an employer match, you can contribute to a deductible IRA, if eligible, and contribute pretax dollars, which reduces your contribution's cost by your marginal income tax rate. In 2014, you can contribute a maximum of $5,500 to an IRA, and individuals over age 50 can make an additional $1,000 catch-up contribution.

Please call if you'd like help with this analysis. ❍❍❍

Organizing Your Estate

Estate planning is an ongoing process that rightly entails careful recordkeeping, review, and updates for the rest of your life to keep up with changes in the markets, laws, and your family. When you've finished creating the plan, the next step is to make it possible for your survivors to activate it easily and confidently when the time comes. And that means organizing your estate so all those documents are readily available.

While it isn't necessary or even desirable to keep every piece of paper documenting your financial life, keeping the most important documents well organized can save significant time for settling your estate.

Recognize that it's not just the estate documents you've created that you have to organize. It's also a wide array of documents that serve as proof of purchase and ownership of your assets and document your and your spouse's key life events. One of the best ways to organize them all is to collect them by category and create another master document that explains what they are, where they are, the first steps your spouse needs to take to get the settlement of your estate started, and contact information for all the important officials and advisers he/she needs to connect with.

Below is a description of all the categories of documents your spouse needs with examples of specific documents in each category. After collecting them by category, put them in a separate, labeled file folder, binder, or envelope for each category, and store them in a place that protects them from fire and water — either a home safe or a safe deposit box at a bank.

- ❍ **Estate planning documents:** Your last will and testament, living will, all trust documents, power of attorney declarations, and any funeral instructions.
- ❍ **Personal documents:** Certificates of birth, marriage, and death of other key relatives; divorce and separation agreements; adoption papers; and military records. In addition, make copies of your driver's license, Social Security card, health insurance and/or Medicare card, and any organ donor cards.
- ❍ **Other legal documents:** Examples include pre- and post-nuptial agreements, corporation or partnership agreements, and leases.
- ❍ **Financial account statements and securities certificates:** Keep and periodically refresh all your bank, brokerage, mutual fund, and other investment account statements. Also include any stock, bond, or saving certificates.
- ❍ **Copies of your life insurance policies:** Make sure you include copies of the beneficiary designations and any recent statements of cash values.
- ❍ **Real estate documents:** These should include all deeds, mortgage, and title insurance documents and copies of your homeowners insurance policies for all properties you own.
- ❍ **Retirement plan documents:** Be sure to include all plan and account documents, beneficiary designations, and statements of all workplace retirement plans, IRAs, annuities, and pension plans you own and statements of your Social Security benefits.
- ❍ **Vehicle documents:** All documents related to the automobiles, motorcycles, scooters, boats, and airplanes you own. Include all titles, loan statements, and insurance policies for each vehicle.
- ❍ **Credit card and outstanding debt documents:** Keep and periodically refresh copies of your credit card, education, and any other outstanding personal loan balances.
- ❍ **Tax returns:** This file should always contain full copies of at least three years of federal, state, and local income tax returns. ❍❍❍

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