

21st century retirement



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Somewhere along the road to retirement, it is a good idea to consult your “map.” Will your ride be smooth or filled with potholes? How far off is retirement day, and do you have sufficient financial resources to last the journey? Regardless of your current location along this road, it’s important to recognize that the financial “bags” you’ve packed may only take you so far.

The Sooner You Begin, the Better

Many people in their prime earning years don’t save enough for retirement. One advantage of being relatively young when you start a retirement savings program is that you can amass a potentially larger nest egg due to your longer planning horizon. The more you accumulate *before* you retire, the less you may need to worry about working *after* you retire to maintain your desired lifestyle. For these reasons, it is important to spend time *now* developing a well-organized plan—or “road map”—for retirement.

What does such a road map look like, and how can it help you reach your financial destination? Try using these five signposts as guides:

1. Determine your retirement needs and resources. With people living longer than ever before, a sound retirement strategy may need to provide you with an income stream, indexed for inflation, that can last anywhere from thirty to forty years. Even with a 4% annualized rate of inflation, the cost of goods and services will triple in about 29 years. With this in mind, compare the amount of income you receive *now* to the amount you will have *during retirement*.

Once you’ve analyzed this information, you will need to develop financial strategies to help provide you with your required income stream. What assets do you currently have? What savings plans do you have in place? As you review your retirement program, how will you fill any gap between what you have saved to date and your future retirement needs?

2. Recognize that Social Security and pension benefits may not meet all of your needs. In the past, Social Security and a company pension have been significant sources of retirement income. However, the days of “living off” a pension or Social Security have passed. If you depend solely on Social Security or your pension, you may find your income is insufficient to meet your retirement needs. Developing a retirement savings program can help you address any anticipated shortfall.

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Retirement: A Community Audition

a house once filled with the constant, clamoring sounds of a growing family has grown silent. Family visits have become few and far between. The silence seems deafening. If these thoughts seem familiar, maybe you and your spouse have outgrown a home you once considered to be too small.

Life changes can raise housing concerns regarding accessibility, maintenance, location, community resources, social interaction, and consistency with prior lifestyle. If you have lived in the same home for many years, decisions about future housing can be difficult. Your family home may have provided continuity in terms of familiarity and community, and it may be paid for by the time you reach retirement. However, its size and maintenance requirements may have been more appropriate when children were home and you had more energy. Also, the family home can feel isolated if its location limits access to social support systems (particularly when lifelong friends have died or moved away).

Although our specific housing needs change as we age, shelter, in any form, is always more than mere physical comfort. It is a financial, psychological, and social base, which anchors our sense of stability. For this reason, it is common to find people who had moved to warmer climates in their early retirement years later returning to the familiarity of their original communities and the proximity of family and friends.

With many other soon-to-be seniors in similar situations, **retirement communities**, also known as **55+ communities**, have become a viable alternative for people looking

to downsize their homes. These neighborhoods or complexes, which vary from condominium-style settings to single-family homes, usually require that at least one member of the household be age 55 or older.

Retirement communities typically offer an active and independent lifestyle to those who do not require **assisted living facilities (ALFs)**. The Housing for Older Persons Act of 1995 eliminated the requirement that these communities have “significant facilities and services designed to meet the physical and social needs of older persons.” This legislation has increased the popularity of such communities as an alternative for people age 55 and over who do not require assisted care.

Considerations

Relocation of any kind requires a careful examination of the possible pros and cons. Before selling your home to move to the newest 55+ community, consider the following:

Security. Retirement communities may offer security that a typical neighborhood would not. Generally, they have security guards at the entrance of the neighborhood or building. Knowing this added protection exists, you may sleep more soundly at night.

Recreation. With people living longer than ever before, retirement less often brings to mind an idle existence. These days, retirement can be as active and adventurous as you choose. Generally, retirement communities offer a recreation center that hosts group activities that may be as vigorous as sporting events or as leisurely as card games.

Medical Facilities. Many retirement communities have medical facilities located within the property limits. You or your spouse may not currently require ongoing care; however, it can be comforting to know that qualified medical professionals are accessible at any time, if the need arises.

Maintenance. Although you might have once considered shoveling snow, mowing the lawn, and picking weeds pleasurable pastimes, they may now be tiresome. Oftentimes, these self-contained neighborhoods handle exterior maintenance—including lawn care and snow removal. A retirement community enables you to enjoy a yard without having to maintain it.

Costs. The services retirement communities provide come at costs that must be considered in addition to typical homeowners’ expenses. Usually, there are entrance fees and monthly maintenance costs (similar to condo fees), which may increase your purchase price by thousands of dollars.

Limited Socialization. While many people consider a retirement community’s socially oriented lifestyle an advantage, some consider it a disadvantage. If transportation is not readily available, the prospect of frequently being surrounded by the same group of people could seem confining.

Determining where you want to spend your “golden years” is a decision that requires serious consideration. Whether you choose to stay in your current location, decide to call a retirement community home, or opt to explore other living arrangements, it is important that you are comfortable with your choice. ■

Playing by the IRA Rules

Even the rebellious at heart may choose to play by the rules governing Individual Retirement Accounts (IRAs) to avoid any penalties. IRAs offer favorable tax-deferral benefits to people saving for retirement, but with those benefits come certain rules about *when* distributions may be taken. Contributions to a traditional IRA, depending on your income and participation in employer-sponsored plans, may entitle you to certain current income tax deductions. Furthermore, because your funds are not taxed until distributions begin, your savings have the potential for tax-deferred growth. For most, IRAs work best as long-

term savings vehicles; but if the need arises, you may be able to withdraw funds *early* and without penalty, provided your situation qualifies as an exception.

The Age 59½ Rule

The age 59½ rule stipulates that, if you take distributions from your traditional IRA before you reach the age of 59½, you may be subject to a 10% Federal income tax penalty in addition to paying regular income tax. However, you may not have to pay the 10% Federal income tax if your early distribution meets certain requirements.

Exceptions

You may be eligible for qualified distributions, penalty free, if one of the following *exceptions* applies:

- You are taking qualified distributions as the beneficiary of a deceased IRA owner. If you inherit an IRA, there are stipulations outlining *when* you must begin taking distributions based on your relationship to the decedent. For non-spousal beneficiaries, *when* the IRA owner died, not the age of the beneficiary, determines when distributions must be taken; therefore, there is no penalty if the beneficiary has not

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3. Increase your personal savings. One way to boost your savings is to set money aside on a regular basis. Stay disciplined, and consider adjusting your budget to save more as your financial situation changes.

4. Take advantage of your company plan. If your employer sponsors a retirement program, consider contributing the maximum amount as defined by plan rules and Federal law. This can help you take advantage of pre-tax contributions and accumulations on a *tax-deferred* basis. In addition, many employers *match* employee contributions. Limitations may apply. For example, suppose you contribute 10% of your income to your 401(k) plan and your employer matches 50% of your contribution. Thus, for every dollar you contribute, your employer adds 50 cents. Consequently, your account receives 50% more money than you actually contributed.

5. Use personal tax-efficient alternatives. Individual Retirement Accounts (IRAs) allow you to save on a tax-deferred basis. Contributions to traditional IRAs may be tax deductible, and funds accumulate on a tax-deferred basis; however,



income taxes are due when distributions from the IRA are taken. On the other hand, contributions to Roth IRAs are made with *after-tax* dollars,

subject to income limitations; funds accumulate tax free, and no income tax is due when distributions are taken. For tax year 2009, contributions to an IRA, or combination of IRAs, are limited to \$5,000 (\$6,000 for individuals age 50 or older).

You're in the Driver's Seat

Retirement may seem a long way down the road, especially when you have immediate and pressing family concerns. However, the younger you are when you begin taking advantage of your saving opportunities, the better off you will likely be when your retirement day dawns. Why not pause *now* to review your long-term strategies? When you reach retirement age, you will have hopefully navigated any bumps or potholes and secured a more comfortable financial future. ■

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yet reached age 59½. The age of the beneficiary will determine only the amount of the required minimum distribution (RMD). The same is true for spousal beneficiaries who do not opt to treat an inherited IRA as their own. The exception does not apply to spousal beneficiaries who opt to treat the account as their own IRA.

- You are paying for certain first-time homebuyer expenses, generally referred to as qualified acquisition costs, such as buying, building, or renovating a first home. Distributions, which may not exceed \$10,000, may be used to cover qualified costs for you, your spouse, your children, or your grandchildren.
- You, your spouse, or dependents have unreimbursed medical expenses that total more than 7.5% of your adjusted gross income (AGI). If a medical expense for you, your spouse, or a dependent qualifies to be itemized on your income tax return, it generally will be considered eligible for exception.
- The distributions are part of a series of substantially equal payments that meet certain annuity criteria. The Internal Revenue Service (IRS) currently endorses three methods for determining an early distribution schedule:

the life expectancy method, the amortization method, and the annuitization method. Once an early distribution schedule is established, it must be maintained for five years, or it must last until you reach age 59½, whichever length of time is longer. Furthermore, at least one distribution must be taken annually.



- You qualify as being disabled. Certain physical and mental conditions, generally determined by a physician to limit activity, may excuse an individual from the penalty tax.
- You are paying medical insurance premiums due to unemployment.

If you lost your job, and received unemployment compensation for 12 consecutive weeks, you may take distributions from your IRA account, penalty free, during the year in which you received unemployment compensation, or in the following year, but no later than 60 days after you have been re-employed. Distributions may not exceed the amount paid in medical premiums for you, your spouse, and your dependents.

- You are paying for higher education expenses, such as tuition, fees, and books at an eligible educational institution (generally, all accredited postsecondary institutions). The distributions may not exceed your qualified education expenses, or those of your spouse, your children, or your grandchildren.
- The distribution is attributable to an IRS levy of the IRA.

IRAs are strictly regulated to ensure that they are used as vehicles for retirement savings. Therefore, they generally work best as long-term savings vehicles. However, if you do need income from your IRA before you reach age 59½, it is important to know if your situation excuses you from the penalty tax levied on early distributions. Playing by the rules may save you money and help preserve your savings for retirement. ■

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