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FINANCIAL & RETIREMENT PLANNING FOR LIFE

HALF OF RETIREES REPORTED BEING SOMEWHAT OR NOT AT ALL SATISFIED WITH THEIR RETIREMENT.

Learning to be a retiree

Practice makes perfect when it comes to retirement

Most of us really look forward to the idea of well-deserved, unstructured free time. A time to do exactly what we please when we please. Until we get it.

A retirement satisfaction survey from EBRI found that half of retirees (51.4%) in 2012 reported being somewhat or not at all satisfied with their retirement. Some retirees underestimate how long it takes to adjust to a new lifestyle; others miss friends from work; still others find themselves with too much free time.

The question is, without your career to define you, what will? Finding the answer takes preparation and thought. While the financial component is critical to a sustainable retirement, so is your quality of life. Too few people consider the psychological factors, which include losing your career identity and spending more unscheduled time with your spouse, as well as the need to find ways to stay active.

It's crucial that would-be retirees invest in their social, physical and psychological needs as well as their financial ones. And that takes planning. Here's what we mean.

ALL OR NOTHING?

It turns out you don't have to go all-in on retirement. You can transition into it, while still working. In the years before you plan to retire: Practice. Try out aspects of your pro-

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Learning to be a retiree (cont.)

posed retirement and see if they are fulfilling. You may find you prefer a sort of hybrid retirement that perfectly blends work and leisure into the ideal mix for you.

There are benefits of continuing to work while you try on retirement for size. The additional income can help you:

- Avoid drawing down your retirement savings, allowing time for potential future growth.
- Pay down unnecessary debt or splurge.
- Stretch your retirement savings. Even a part-time salary will reduce the amount you'll need to withdraw. For example, making $10,000 a year is enough to replace a 4% annual withdrawal from a $250,000 portfolio.
- Delay taking Social Security, until age 70. Each year you wait after full retirement age adds 8% to your monthly benefits.
- Reduce out-of-pocket healthcare costs since you'll still be covered under employer-subsidized insurance.

To get into the right mindset, first figure out if you really want to retire and what that may look like. You're seeking fulfilling activities that also fill up your time in meaningful ways. Having an emotional connection helps motivate you and creates a sense of contentment. Allow yourself the luxury of introspection and give yourself permission to enjoy your 60s, 70s and beyond using the money you've saved specifically for this purpose.

A CHANGE OF PACE

Of course, everyone's vision for retirement will be different, and decisions about this phase of life should be based on your financial situation and comfort level. If continuing to work while dipping your toe into the retirement waters appeals to you, run the idea past your financial advisor. He or she can help you determine if a more gradual approach could help you adjust emotionally and financially, so you can achieve the ultimate reward: a happy, fulfilling new life. ■

NEXT STEPS

Meet with a professional to discuss:

- Retirement income planning
- Social Security strategies
- Testing retirement scenarios

ACCENTUATE THE POSITIVES

Eight tips to find contentment in retirement

1. Treat your body well with exercise and nutrition
2. Focus on the good
3. Practice empathy, kindness and generosity
4. Be a good friend
5. Maintain meaningful relationships
6. Volunteer
7. Pursue your passions
8. Meditate

Sources: T.Rowe Price; *Forbes*; The New York Times, "Thriving at Age 70 and Beyond"; Employee Benefit Research Institute, "Trends in Retirement Satisfaction in the United States: Fewer Having a Great Time," April 2016; U.S. News and World Report, "How to be Happier in Retirement"; Hartford Funds/MIT's AgeLab

A retirement savings exit strategy

Create a plan to withdraw your minimum distributions on your terms, while complying with Uncle Sam's

Every day, an estimated 10,000 people reach the IRS trigger age when they must begin withdrawing money from their retirement plans. If you're among them, it's wise to develop a strategy.

Once you hit 70½, IRS rules call for required minimum distributions (RMDs) every year on all of your traditional, simplified employee pension (SEP) and SIMPLE IRAs, as well as employer-sponsored plans. Roth IRAs are exempt.

Since you definitely want to comply (the IRS will levy a 50% penalty on any amount you are supposed to withdraw but don't), talk to your advisor about how to be smart with RMDs, perhaps even automating them. Here are some strategies.

Scenario: You want to take advantage of a low tax year or down market

Strategy: *Convert traditional IRAs to Roth IRAs*

If your income declines, you may want to convert a traditional IRA into a Roth IRA. You'll owe taxes on the amount you convert in the year of the conversion, but unlike traditional IRAs the balance in your new Roth IRA is not subject to RMDs – and any withdrawals you choose to make are not taxable.* You want to pay taxes at the lowest rate possible, so if you are in the 15% tax bracket now but believe you will be in the 25% or higher bracket later, you may be able to save by paying taxes now.

Scenario: You don't need the money and want to minimize your taxes

Strategy: *Make a charitable contribution from your IRA*

You may also make a qualified charitable distribution (QCD), which allows you to donate up to $100,000 directly from your IRA to a qualified charity. This removes money from your IRA tax-free, which in turn reduces the amount on which your RMD for that year is calculated, and also provides you with a potential tax deduction. You must be 70½ or older to be eligible.

Scenario: You need the money to live on and want to minimize taxes

Strategy: *Consider purchasing an annuity within your IRA*

Another idea is to purchase what's called a "qualified longevity annuity contract" (QLAC) in your IRA. With a QLAC, you pay a specified premium now in return for guaranteed income later. You don't have to take an RMD from the portion of your IRA used for that premium until age 85, which may cut your tax liability. The IRS exempts longevity annuity premiums of up to $125,000 or 25% of your IRA account, whichever is less. Annuities can be complicated, so discuss it with your advisor.

Guarantees are subject to the claims-paying ability of the issuing insurance company.

PLAN WISELY, LIVE WELL

These are just a few of the options available with RMDs; a professional can help you create a specific plan that addresses your individual situation. Remember, your goal is to comply in a tax-efficient manner that takes into account other income streams, your estate plans and the fact that you worked hard for that money and it's time to enjoy it. ■

NEXT STEPS

Get professional help about:

- Tax planning
- Making the most of charitable gifts
- Other RMD strategies

*Unless certain criteria are met, Roth IRA owners must be 59½ or older and have held the IRA for five years before tax-free withdrawals are permitted. Additionally, each converted amount is subject to its own five-year holding period. Converting a traditional IRA into a Roth IRA has tax implications. Investors should consult a tax advisor before deciding to do a conversion.

As federal and state tax rules are subject to frequent changes, you should consult with a qualified tax advisor prior to making any investment decision.

Dealing with dementia

"I saw the bravest man in the world playing the hardest role of his life," Robin Williams' widow wrote in October of her husband's dementia and the months leading up to his death in 2014. When his anxiety, personality changes and memory problems began three years ago, a "foundation of friendship and love was our armor," Susan Schneider Williams said.

Her story likely strikes a chord among those caring for a loved one with dementia. The Alzheimer's Association estimates that more than 15 million Americans currently are. And her words speak to their important role: to offer companionship and help in planning for the future.

In the early stages of the disease, you and your loved one can work together to make decisions regarding long-term care and financial details. When you know their wishes, it builds confidence for the path forward. That's why it's important to act when the first symptoms appear.

THE WARNING SIGNS

So, what can early-stage dementia look like? Experts say to urge someone to see a doctor if they:

- Consistently struggle to find the right word or name
- Have difficulty remembering names of people they're introduced to
- Lose their sense of time and place
- Forget where they are or how they got there
- Lose or misplace things of value
- Have trouble planning or organizing

"What we did not know was that when these diseases 'start' (are diagnosed) they have actually been going on for a long time," Williams said of her husband's swift decline from memorizing an entire script to grasping for a single line of dialogue. It wasn't until after the 63-year-old actor died that his family found out he had Lewy body dementia.

TAKING ACTION

When it's time to step in, you don't have to go it alone. Call a family meeting and determine who's willing to pitch in with caregiving or managing finances. You should also ask your loved one to take you to a meeting with a financial advisor. There you can get expert help in ensuring all estate planning documents are up to date and make a plan for dealing with financial issues. You also might want to discuss the idea of establishing legal authority through a power of attorney, so you can help make important decisions.

Remember, too, that it's important to get support for yourself. The best thing you can do as a caregiver is to stay physically and emotionally strong and get help when needed. You can always ask your advisor to coordinate with other professionals offering assistance, including your loved one's financial advisor. ■

NEXT STEPS

Talk to your professional team about:

- Estate planning
- Budgeting for long-term care
- Planning for the possibility of cognitive decline