



Retirement Income Planning

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Important Notice

This report is intended to serve as a basis for further discussion with your other professional advisors. Although great effort has been taken to provide accurate numbers and explanations, the information in this report should not be relied upon for preparing tax returns or making investment decisions.

Assumed rates of return are not in any way to be taken as guaranteed projections of actual returns from any recommended investment opportunity. The actual application of some of these concepts may be the practice of law and is the proper responsibility of your attorney.

Investment Products are not a deposit, not FDIC insured, not insured by any federal government agency, carry no bank guarantee, and may go down in value.

The Need for Retirement Planning

Traditionally, retirement in America has been defined in terms of its relationship to participation in the active work force. An individual would work full-time until a certain age, and then leave employment to spend a few years quietly rocking on the front porch. Declining health often made retirement short and unpleasant. Retirement planning, as such, typically focused on saving enough to guarantee minimal survival for a relatively brief period of time.



More recently, however, many individuals are beginning to recognize that for a number of reasons, this traditional view of retirement is no longer accurate. Some individuals, for example, are voluntarily choosing to retire early, in their 40s or 50s. Others, because they enjoy working, choose to remain employed well past the traditional retirement age of 65. And, many retirees do more than just rock on the front porch. Retirement is now often defined by activities such as travel, returning to school, volunteer work, or the pursuit of favorite hobbies or sports.

This changed the face of retirement, however, with all of its possibilities, does not happen automatically. Many of the issues associated with retirement, such as ill health, and the need to provide income, still exist. With proper planning, however, these needs can be met.

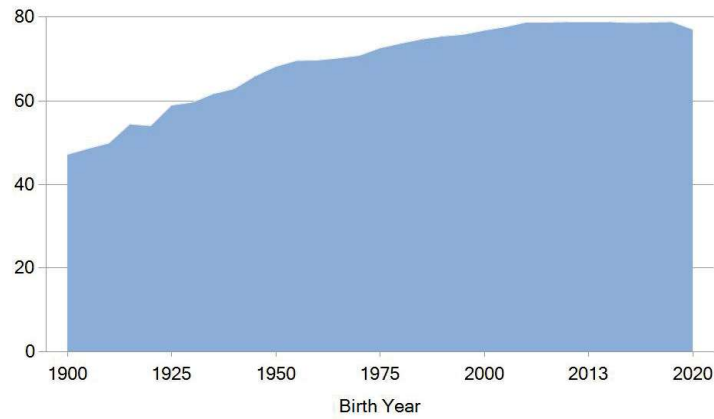
Longer Lives

The single most important factor in this changed retirement picture is the fact that we now live much longer than before. A child born in 1900, for example, had an average life expectancy of 47.3 years. For a child born in 2020, however, average life expectancy had increased to 77.0 years. The following graph¹ illustrates this change.

¹ Source: National Vital Statistics Reports, Volume 71, Number 1 – United States Life Tables, 2020, Table 19. August 8, 2022.

The Need for Retirement Planning

Average U.S. Life Expectancy (1900 – 2020)



Common Retirement Planning Issues

Planning for a much longer life span involves addressing problems not faced by earlier generations. Some of the key issues include the following:

- **Paying for retirement:** Providing a steady income is often the key problem involved in retirement planning. Longer life spans raise the issue of the impact of inflation on fixed dollar payments, as well as the possibility of outliving accumulated personal savings. Social Security retirement benefits and income from employer-sponsored retirement plans typically provide only a portion of the total income required. If income is insufficient, a retiree may be forced to either continue working, or face a reduced standard of living.
- **Health care:** The health benefits provided through the federal government's Medicare program are generally considered to be only a foundation. Often a supplemental Medigap policy is needed, as is a long-term care policy, to provide needed benefits not available through Medicare. Health care planning should also consider a health care proxy, allowing someone else to make medical decisions when an individual is temporarily incapacitated, as well as a living will that expresses an individual's wishes when no hope of recovery is possible.
- **Estate planning:** Retirement planning inevitably must consider what happens to an individual's assets after retirement is over. Estate planning should ensure not only

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that assets are transferred to the individuals or organizations chosen by the owner, but also that the transfer is done with the least amount of tax and administrative expense.

- **Housing:** This question involves not only the size and type of home (condo, house, shared housing, assisted living), but also its location. Such factors as climate and proximity to close family members and medical care are often important. Completely paying off a home loan can reduce monthly income needs. A reverse mortgage may provide additional monthly income.
- **Lifestyle:** Some individuals, accustomed to a busy work life, find it difficult to enjoy the freedom offered by retirement. Planning ahead can make this transition easier.

Seek Professional Guidance

Developing a successful retirement plan involves carefully considering a wide range of issues and potential problems. Finding solutions to these questions often requires both personal education and the guidance of knowledgeable individuals, from many professional disciplines. The key is to begin planning as early as possible.

Sources of Retirement Income

Most retirees derive their retirement income from three primary sources: Social Security retirement benefits, qualified retirement plans, and individual savings and investments.



Social Security Retirement Benefits

Social Security retirement benefits are intended to provide only a portion of an individual's retirement income. Traditionally, retirement benefits began at age 65. For those born after 1937, however, the age at which full benefits begin will increase gradually, until it reaches age 67 for those born in 1960 and later. A reduced benefit is available, beginning at age 62. The monthly benefit amount is based on an individual's past earnings record. A worker can earn a larger retirement benefit by continuing to work past full retirement age, up to age 70. Up to 85 percent of a retiree's Social Security retirement benefits may be subject to federal income tax (state law may vary) as ordinary income. Social Security retirement benefits are subject to adjustment for inflation on an annual basis.

Qualified Retirement Plans

A retirement plan is considered to be "qualified" if it meets certain requirements set by federal income tax law. In general, employer or employee contributions to a qualified plan are currently deductible and the earnings are tax deferred until paid out of the plan. Mandatory distribution rules typically apply and taxable withdrawals before age 59½ may be subject to an additional 10% penalty tax.¹

- **Employer-sponsored qualified plans:** Employer-sponsored plans can generally be classified as either defined benefit or defined contribution. Defined benefit plans specify the benefit amount a participant will receive at retirement; an actuary estimates how much must be contributed each year to fund the anticipated benefit. The investment risk rests on the employer. Benefits are generally taxable. In contrast defined contribution plans, such as 401(k), 403(b) or SEP plans, typically put a percentage of current salaries into the plan each year. The retirement benefit will

¹ The rules and regulations surrounding qualified plans are complex. This discussion is intended to be only a brief, general description. State or local law may vary.

Sources of Retirement Income

depend on the amount contributed, the investment return, and the number of years until a participant retires. The investment risk rests on the individual participant.

Benefits are generally taxable.

- **Individual qualified plans:** Include the traditional Individual Retirement Account (IRA) and the Roth IRA. Contributions to a traditional IRA may be deductible and earnings grow tax deferred. Distributions from a traditional IRA are taxable to the extent of deductible contributions and growth. Contributions to a Roth IRA are never deductible and earnings grow tax deferred. If certain requirements are met, retirement distributions from a Roth IRA are tax free.¹
- **Nonqualified retirement plans:** An employer may set up a plan, often in the form of a deferred compensation plan, which does not meet federal requirements to be considered “qualified.” Benefits are generally taxable when received. Such plans are often used as a supplement to qualified retirement plans.

Individual Savings

Individual savings and investments are the third primary source of retirement income. An individual can choose to accumulate funds using a wide range of investment vehicles. The appropriate type of investment will depend on a number of factors such as an individual’s investment skill and experience, risk tolerance, tax bracket, and the number of years until retirement. Below are listed some of the more commonly used choices.

- **Savings accounts:** Including regular savings accounts, money market funds, and certificates of deposit (CDs) at banks, savings and loans and credit unions.
- **Common stock:** May also include other forms of equity ownership such as preferred stock or convertible bonds. Stock can be owned directly, in a personal portfolio, or indirectly through a mutual fund or an exchange-traded fund (ETF).
- **Bonds:** Includes corporate, government or municipal bonds. Bonds can be directly owned in a personal portfolio or indirectly held in either a mutual fund, unit investment trust, or an exchange-traded fund.

¹ The discussion here concerns federal income tax law; state or local tax law may vary.

Sources of Retirement Income

- **Real estate:** Individually owned investment real estate or indirect investment through a real estate investment trust or limited partnership.
- **Precious metals:** Such as gold or silver, in the form of coins, bullion, or in the common stock of mining companies.
- **Commercial deferred annuities:** Commercial, deferred annuities are purchased from a life insurance company and can provide tax-deferred growth through a variety of investment choices.

Other Income Sources

- **Immediate annuity:** An “immediate” annuity is purchased from a life insurance company, typically with a single, lump-sum payment. Within one year after purchase, the annuity begins to make regular, periodic payments to the annuity owner.
- **Qualified longevity annuity contract (QLAC):** A QLAC is a type of annuity contract paid for with funds from IRAs or other qualified retirement plans, designed to provide a steady income stream in the *later years* of retirement.
- **Continued employment:** On either a full or part-time basis. Earned income is usually taxable and before-full-retirement-age¹ earnings above a certain level may affect the amount of Social Security retirement benefits received.
- **Home equity:** A reverse mortgage may provide additional income, without giving up home ownership. Another way a reverse mortgage can improve cash flow is by replacing a traditional mortgage with a reverse mortgage so that there are no monthly principal and interest payments.
- **Life insurance:** A permanent life insurance policy may have cash value that can be withdrawn or borrowed against to supplement other sources of income during retirement. If certain tax rules are followed, the income will generally be received income-tax free.

¹ “Full retirement age” is the age at which an individual is entitled to “full” Social Security retirement benefits – 100% of an individual’s Primary Insurance Amount. Under current law, this age will vary from 65 to 67, depending on an individual’s year of birth.

Sources of Retirement Income

Seek Professional Guidance

Providing an adequate stream of income during retirement can often involve dealing with complex tax, investment, and insurance questions. The advice and guidance of trained, experienced professionals is strongly recommended.

An Overview of Social Security Benefits

What Is Social Security?

Social Security is a system of social insurance benefits available to all covered workers in the United States. Begun in 1937, the Social Security system covers a wide range of social programs. The term “Social Security,” as it is commonly used, refers to the benefits provided under one part of the system, known by its acronym, OASDI, or Old-Age, Survivors, and Disability Insurance.

OASDI benefits are funded primarily by payroll taxes paid by covered employees, employers, and self-employed individuals. Both the OASDI portion of the payroll tax, as well as that part of the tax that goes to finance hospital insurance, HI (Medicare), are provided for under the Federal Insurance Contributions Act, FICA.

Insured Status

To qualify for benefits, a worker must be either “fully” insured or “currently” insured. An insured status is acquired by earning “credits”, based on the wages or self-employment income earned during a year. In 2025, an individual must earn \$1,810 in covered earnings to receive one credit and \$7,240 to earn the maximum of four credits for the year.

A worker generally becomes fully insured by earning 40 credits, typically by working 10 years in covered employment.¹ To be considered currently insured, a worker must have at least six credits in the last 13 calendar quarters, ending with the quarter in which he or she became entitled to benefits.

All benefits are available if a worker is fully insured. Some benefits are not available if the worker is only currently insured. Special requirements apply to disability benefits.

What Benefits Are Available?

- **Worker’s benefit:** This is a monthly income for a retired or disabled worker.
- **Spouse’s benefit:** Refers to monthly income for the spouse or former spouse of a retired or disabled worker.

¹ For those working less than 10 years, an alternative test to determine fully-insured status may apply.

An Overview of Social Security Benefits

- **Widow(er)'s benefit:** Refers to monthly retirement income for the surviving spouse or former spouse of a deceased worker.
- **Child's benefit:** A monthly income for the dependent child of a deceased, disabled, or retired worker. To qualify, a child must be under age 18, or 18 or 19 and a full-time elementary or high school student, or 18 or over and disabled before 22.
- **Mother's or father's benefit:** Monthly income paid to a surviving spouse who is caring for a worker's dependent child who is under age 16 or disabled before age 22. If under age 62, the spouse of a retired worker receives the same benefit.
- **Parent's benefit:** Monthly income paid to the surviving dependent parent or dependent parents of a deceased worker.

On What Is the Amount of a Social Security Benefit Based?

In general, a covered worker's benefits, and those of his or her family members, are based on the worker's earnings record. The earnings taken into account are only those reported to the Social Security Administration (SSA), up to a certain annual maximum known as the "wage base." The wage base is indexed for inflation each year and effectively places a cap on the amount of Social Security benefits a worker can receive, regardless of earnings. The wage base for 2025 is \$176,100.¹

Using a worker's earnings record, the SSA calculates a number known as the Primary Insurance Amount, or PIA. The PIA is the basic value used to determine the dollar amount of benefits available to a worker and his or her family.

What Is the Benefit Amount?

The table below summarizes the benefit amounts generally payable under OASDI in the event of a worker's death, disability, or retirement. All monthly benefit amounts are subject to reduction to meet a "family maximum" limit. Individual benefits may also be reduced if the recipient has earned income in excess of specified limits.

¹ The wage base for 2024 was \$168,600.

An Overview of Social Security Benefits

| | Death ¹ | Disability ² | Retirement ³ |
|-------------------------------------|---------------------------|-------------------------|-------------------------|
| Worker's benefit | | 100% of PIA | 100% of PIA |
| Spouse's benefit | N/A | 50% of PIA | 50% of PIA |
| Widow(er)'s benefit | 100% of PIA | N/A | N/A |
| Child's benefit | 75% of PIA | 50% of PIA | 50% of PIA |
| Mother's or father's benefit | 75% of PIA | 50% of PIA | 50% of PIA |
| Parent's benefit | 82.5% of PIA ⁴ | N/A | N/A |

Workers age 60 or older and who are not receiving Social Security benefits automatically receive a paper Social Security Statement each year, listing the worker's earnings as well as providing estimated retirement, disability, and survivors benefits.

Earnings information may also be verified by calling the SSA directly at (800) 772-1213; TTY (800) 325-0778, Monday through Friday, 7:00AM to 7:00PM. On the internet, the SSA can be found at <https://www.ssa.gov/>.

¹ Reduced widow(er)'s benefits are available at age 60.

² Disability benefits are subject to a very strict definition of disability. At full retirement age (FRA), disability benefits cease and retirement benefits begin.

³ Unreduced benefits are available at FRA. For those born before 1938, FRA is age 65. For individuals born after 1937, FRA gradually increases from age 65 to age 67. For example, for baby boomers born between 1943 -1954, FRA is age 66. A larger retirement benefit is available to those who continue to work past FRA.

⁴ If one parent qualifies, the benefit is 82.5% of the PIA. If both parents qualify, the benefit is 75% of the PIA to each.

Annuities in Retirement Income Planning

In the past, individuals entering retirement could look to a number of potential sources for the steady income needed to maintain a decent standard of living:

- **Defined benefit (DB) employer pensions:** In these plans the employer promises to pay a specified monthly amount for the life of the retiree and/or spouse.
- **Social Security:** Designed to replace only a part of an individual's working income, Social Security provides a known benefit for the life of a retiree and his or her spouse.
- **Defined contribution (DC) plans:** Such as 401(k), 403(b), or 457¹ plans, which allow for contributions from the employee (in some cases from the employer as well) to a retirement account. The funds in the account, whatever they amount to at retirement, provide retirement income.
- **Individual retirement plans:** Such as Traditional IRAs or Roth IRAs. These are "individual" versions of employer-sponsored DC plans. The funds in the IRA at retirement, whatever the amount, are used to provide retirement income.



The Changing Face of Retirement

The saying that "life is what happens when you're making other plans" is particularly true when it comes to retirement income planning, for several key reasons:

- **Fewer employer pensions:** Over the past several decades, many employers have changed from defined benefit to defined contribution plans. From 1985 to 2000, for example, the rate of participation in defined benefit plans by full-time employees of medium and large private firms dropped from 80% to 36%.² A survey by the Bureau of Labor Statistics, published in 2022, found that only 20% of civilian workers in the U.S. participated in defined benefit pension plans.³

¹ These refer to the sections of the Internal Revenue Code which authorize these different types of retirement plans.

² See, "Employee Participation in Defined Benefit and Defined Contribution Plans, 1985-2000." U.S. Bureau of Labor Statistics, updated June 16, 2004.

³ National Compensation Survey: Employee Benefits in the United States, March 2022, Table 1.

Annuities in Retirement Income Planning

- **Social Security:** Social Security is a “pay-as-you-go” system, with current workers supporting those already receiving benefits. As the baby boom generation retires, the number of individuals remaining in the workforce to support them grows smaller. Although politically unpleasant, fiscal reality may force higher payroll taxes, reductions in benefits, or both.
- **We’re living longer:** A child born in 1900 had an average life expectancy of 47.3 years. For a child born in 2021, however, average life expectancy had increased to 76.4 years.¹

With the stable, lifetime income stream from employer pensions and Social Security playing an ever shrinking role, retirement income planning demands that each individual accept a higher degree of personal responsibility for both accumulating and managing the assets needed to pay for retirement. And managing these assets has to be done in a world where constant inflation, fluctuating interest rates, and sometimes volatile financial markets are a fact of life.

Longer lives mean the money has to last longer, although exactly how long is unknown.

One Possible Answer – Immediate Annuities

Life insurance is designed to help solve the problems created when someone dies prematurely. An annuity, on the other hand, is designed to protect against the possibility of living too long. An “immediate” annuity is a contract between an individual and an insurance company. In exchange for a single, lump-sum premium, the insurance company agrees to begin paying a regular income to the purchaser for a period of years or for life. The periodic payment amount depends on a number of factors:

- **Premium paid:** Generally the larger the payment, the larger the income stream.
- **Age:** Older individuals typically receive larger periodic payments.
- **Payout period selected:** A shorter payout period usually results in a larger payment.
- **Underlying investment medium:** Generally, either a fixed or a variable annuity.

¹ Source: National Vital Statistics Reports, Volume 72, Number 12, United States Life Tables, 2021, Table 19. November 7, 2023.

Annuities in Retirement Income Planning

FIXED ANNUITY

A fixed annuity pays a fixed rate of return. The insurance company invests in a portfolio of debt securities such as mortgages or bonds and pays out a fixed rate of return. Generally, this rate of return is guaranteed for a certain period of time after which a new rate is calculated. Most insurance companies offer a guaranteed minimum rate throughout the life of the contract. Such guarantees are based upon the claims-paying ability of the issuing insurance company.

VARIABLE ANNUITY

A variable annuity offers the potential for higher returns in exchange for assuming a higher level of risk. You can choose from among several types of investment portfolios, such as stocks or bonds. The amount of each annuity payment will fluctuate depending on the performance of the underlying investments. Variable annuities are long-term investments designed for retirement purposes. They have certain limitations, exclusions, charges, termination provisions, and terms for keeping them in force, and are sold by prospectus only.¹

Annuities are not insured by the FDIC or any government agency. Since an annuity may be payable far into the future, dealing with a financially solid insurer is essential. Credit rating companies such as A.M. Best, Standard and Poor's, or Moody's can provide an objective measure of a firm's financial stability.

Seek Professional Guidance

For many individuals, an immediate annuity can form an important part of their retirement income planning. Because an immediate annuity is a complex product, the advice and guidance of a trained financial professional is highly recommended.

¹ The prospectus for a variable annuity contains complete information including investment objectives, risk factors, fees, surrender charges, and any other applicable costs.

The Basics of Required Minimum Distributions

Ensuring that Uncle Sam Gets His Due

The benefits of retirement accounts such as a traditional IRA or a 401(k) are two-fold:

- Tax-deductible contributions allow individuals to reduce the size of their current tax burden while they are saving for retirement – which effectively lets them save more.
- Tax-deferred growth inside these accounts allows funds to accumulate without concern for an annual tax bill on that growth.

When It's Time to Pay Taxes

Eventually, however, the government must be paid. The tax benefits of these accounts are provided for one purpose: to help individuals save for retirement. Once an individual reaches retirement age, these same rules now dictate that the funds must be used for retirement purposes and the taxes that have been deferred must be paid.

What does this mean? It means that federal income tax law requires that a minimum amount of money, known as a “required minimum distribution,” or RMD, be withdrawn from these accounts each year, starting at a specific age, known as the Required Beginning Date, or RBD.¹ The amount to be distributed is determined by a special calculation that, in essence, takes the total amount in the account and divides it by the number of years the individual is expected to live. When the required minimum distribution amount is received, it is included as taxable income to the individual and Uncle Sam will, finally, get paid. If an account owner does not make distributions that are large enough, or if distributions are not made at all, a penalty tax of 25%² of the amount that should have been distributed is generally due.³ If the taxpayer promptly corrects the error, the penalty tax is reduced to 10%.

But, one bit of good news is that the amount remaining in the account continues to grow tax deferred.

¹ Under current regulations, the age to begin RMDs increases after 2022 to: (1) age 73 for those born from 1951 to 1959; and (2) to age 75 for those born after 1959. Previously, age 72 was the mandated age to begin RMDs. For non-owner employees, RMDs must begin by April 1 of the year after the *later* of (a) the year an employee reaches the RBD; or (b) the year the employee retires. For more-than 5% owners, RMDs *must begin* by April 1 of the year after the year they reach the RBD.

² Applicable to required minimum distributions after December 29, 2022. Under prior law, the penalty tax was 50% of the amount that should have been distributed.

³ This is federal income tax law. State or local income tax law may differ.

The Basics of Required Minimum Distributions

