YOUR FINANCIAL FUTURE

Your Guide to Life Planning

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In This Issue

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Retirement Planning Strategies for Couples

Communication is one of the foundations of a successful relationship. It also can help you and your partner structure a solid retirement planning strategy.

Planning for two can be more complex than planning for one. It's not unusual for two individuals to have very different plans and financial resources -- for example, one may have more money set aside or may be eligible to collect retirement benefits significantly earlier than the other.

If you're part of a dual-income couple, be sure to review the following considerations.

Talk About the Future

You and your partner may need to negotiate priorities regarding how you'll spend time and money during retirement. It's important to start talking about the future now. Among the considerations:

- Make sure your planned retirement dates are realistic.
- Discuss what you want to do when you retire.
- Estimate the assets you're expecting to have accumulated come retirement, as well as your retirement income needs.
- Try to contribute as much as possible to your employer-sponsored retirement plan and/or IRA while you still can.
- Assess your insurance needs, including life insurance and long-term care insurance.
- Start drafting an estate plan if you are in your 30s or 40s. Update your estate plan if you are 50 and older.

Are You Properly Diversified?

Within a single portfolio, diversification involves spreading your money among different types of investment options so that any losses in one area may be offset by potential gains elsewhere.[1] With two or more retirement accounts, the same theory applies. It's important for you and your partner to evaluate all of your portfolios at the same time to see whether the overall investment mix is well diversified. For example, if you and your spouse have similar investment portfolios, your overall level of risk could be higher than you realize, since a decline in one portfolio would likely be accompanied by a similar decline in the other. If that's the case, you might want to rebalance your asset allocation by shifting money that's already in your accounts to different asset classes (stock funds, bond funds, or cash investments) or by directing future contributions to the under-represented asset classes.[1]

Get on the Same Page

When laying the groundwork for a financial future that includes your significant other, ask yourselves the following questions:

- Do you understand each other's "financial personality"? It's never too late to have an honest discussion about financial habits and objectives. Try to look past your differences and focus on shared goals.
- Have you calculated how much money you are likely to need to fund a financially secure retirement? Do both of you think this amount is realistic? It's tough to work together toward a shared goal if the two of you have different ideas about what exactly that goal is.
- Have you consulted a financial professional? Making a date to discuss your entire range of goals may put you in a stronger position financially to survive unforeseen circumstances.

Regardless of your particular situation, a little advance planning can make the transition to retirement much more pleasant for both you and your better half.

[1]*Diversification and asset allocation do not ensure a profit or protect against a loss in a declining market.*

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Living in Retirement: A Three-Phased Approach

The need to potentially stretch out income over a longer period than previous generations also means that some people may not want to tap Social Security when they're first eligible.

Although many Americans now plan for a retirement up to 20 years, your retirement may last much longer.

Traditionally, retirees were advised to project income needs over the length of time of retirement, add on an annual adjustment for inflation, and then identify any potential income shortfall. But the planning required may not be that linear. For example, research suggests that some retirees' expenses -- other than health care -- may slowly decrease over time. That means many retirees -- depending on personal expenses -- may need more income early in their retirement than later. This necessitates taking a fresh look at retiree expenses and income, as well as withdrawal and estate planning strategies.

Phase 1: The Early Years

The need to potentially stretch out income over a longer period than previous generations also means that some people may not want to tap Social Security when they're first eligible. Consider that for each year you delay taking Social Security beyond your full retirement age until age 70, you'll receive a benefit increase of 6% to 8%, depending on your age. One caveat: If you do decide to delay collecting Social Security, you may want to sign up for Medicare at age 65 to avoid possibly paying more for medical insurance later.

Also plan ahead as to how you'll pay for health care costs not covered by Medicare as you age. Remember that Medicare does not pay for ongoing long-term care or assisted living and that qualifying for Medicaid requires spending down your assets.

If you have accumulated assets in qualified employer-sponsored retirement plans, now may be the time to decide whether to roll that money into a tax-deferred IRA, which could make managing your investments easier. A tax and financial professional can also help you decide which accounts to tap first at this point in your post-retirement planning -- a situation that could significantly affect your financial situation.

Finally, don't overlook any pension assets in which you may be vested, especially if you changed employers over the course of your career. Pensions can supply you with regular income for life.

Phase 2: The Middle Years

By April 1 of the year after you reach age 70½, you'll generally be required to begin making annual withdrawals from traditional IRAs and employer-sponsored retirement plans (except for assets in a current employer's retirement plan if you're still working and do not own more than 5% of the business). The penalty for not taking your required minimum distribution (RMD) can be steep: 50% of what you should have withdrawn. Withdrawals from Roth IRAs, however, are not required during the owner's lifetime. If money is not needed for income and efficient wealth transfer is a goal, a Roth IRA may be an attractive option.

Also, consider reviewing the asset allocation of your investment portfolio. Does it have enough growth potential to keep up with inflation? Is it adequately diversified among different types of stocks and income-generating securities?

Phase 3: The Later Years

Review your financial documents to make sure they are true to your wishes and that beneficiaries are consistent. Usually, these documents include a will and paperwork governing brokerage accounts, IRAs, annuities, pensions, and in some cases, trusts. Many people also draft a durable power of attorney (someone who will manage your finances if you're not able) and a living will (which names a person to make medical decisions on your behalf if you're incapacitated).

You'll still need to stay on top of your investments. For example, an annual portfolio and asset allocation review are important. Keep in mind that a financial advisor may be able to set up an automatic rebalancing program for you. And finally, be aware that some financial companies require that you begin taking distributions from annuities once you reach age 85.

Preparing for a retirement that could encompass a third of your life span can be challenging. Regularly review your situation with financial and tax professionals and be prepared to make adjustments.

This communication is not intended to provide legal or tax advice and should not be treated as such. Each individual's situation is different. You should contact your legal and/or tax professional to discuss your personal situation.

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Lump Sum or Periodic Payments: Which One Should You Choose?

An arrangement to receive an ongoing stream of income may lessen the chances that you will outlive your retirement assets.

If you are on the verge of retirement, you've got an important choice to make regarding your company-sponsored retirement plan: Should you accept the periodic monthly payments, or take a lump-sum distribution?

Employees about to retire face this dilemma all the time. Before you make an irrevocable decision about your future, take the time to understand what it might mean to you and your spouse (if applicable).

There are pros and cons to opting for a lump-sum distribution over periodic payments, including the following:

- **You might be faced with a sizeable tax bite:** With a lump sum, taxes on the entire balance usually must be paid in a single tax year only if the balance is not directly rolled over to a qualified retirement account, such as an individual retirement account (IRA). All amounts taken as a lump sum are taxed at current ordinary income tax rates.

- **A rollover could offer more options:** A rollover to an IRA often permits more control over the retirement money compared with leaving it in an employer-sponsored plan. Although IRAs have distribution rules, they frequently offer a broader range of investment options compared with an employer-sponsored plan. Additionally, a rollover requires you or your financial advisor to make decisions about how the retirement money is invested. In contrast, with your employer-sponsored plan, you may or may not have decision-making responsibility for how the money is invested.

- **Periodic payments may offer greater longevity:** An arrangement to receive an ongoing stream of income may lessen the chances that you will outlive your retirement assets. A lump sum that is reinvested may be more volatile, especially during a stock market downturn.

Other Considerations

Couples have more flexibility when making their decisions, particularly when each has employer-sponsored retirement plans. One could decide to take the periodic payments, while the other opts for a lump-sum rollover. In contrast, a single person without a partner's assets may need to plan for a greater degree of certainty, with the understanding that all investing involves risk.

Age could also be a factor. For individuals taking a lump sum distribution after age 70½, there are Internal Revenue Service rules that determine whether the sum qualifies for preferential tax treatment. A tax advisor can help you determine whether you qualify.

Estate planning considerations may come into play. In certain instances, pension plans may pay benefits to a surviving spouse. Typically, pension assets cannot be bequeathed to children. Both IRAs and defined contribution plans, such as a 401(k) plan, can be bequeathed to loved ones who are mandated to follow required minimum distribution rules.

Weighing whether to take periodic payments or to elect a lump-sum distribution has implications that will affect a retiree's financial situation for years to come. If you have a choice in your retirement plan distributions, be sure to seek professional advice and review all relevant factors.

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When Should You Collect Social Security?

A growing number of Americans have been forced to delay their planned retirement date due to job and savings losses suffered during the most recent recession. According to a survey, nearly one-quarter of workers said they have resolved to retire later due to concerns about outliving their savings and fears of rising health care costs.[1]

Postponing retirement not only means working longer, but also delaying when you start collecting Social Security. Currently, workers can begin collecting Social Security as early as age 62 and as late as age 70. The longer you wait to start collecting, the higher your monthly payment will be. Your Social Security monthly payment is based on your earnings history and the age at which you begin collecting compared with your "*normal retirement age*." This *normal retirement age* depends on the year you were born.

Normal Retirement Age

Year Born	Age
1937 or earlier	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 or later	67

Those choosing to collect before their *normal retirement age* face a reduction in monthly payments by as much as 30%. What's more, there is a stiff penalty for anyone who collects early and earns wages in excess of an annual earnings limit ($15,120 in 2013).

For those opting to delay collecting until after their normal retirement age, monthly payments increase by an amount that varies based on the year you were born. For each month you delay retirement past your normal retirement age, your monthly benefit will increase between 0.29% per month for someone born in 1925, to 0.67% for someone born after 1942.

Which is right for you will depend upon your financial situation as well as your anticipated life expectancy. Consider postponing taking your Social Security benefits if:

- You are in good health and can continue working. Taking Social Security later results in fewer checks during your lifetime, but the credit for waiting means each check will be larger.
- You make enough to impact the taxability of your benefits. If you take Social Security before your normal retirement age, earning a wage (or even self-employment income) could reduce your benefit.
- You earn more than your spouse and want to ensure that spouse receives the highest possible benefit in the event that you die before he or she does. The amount of survivor benefits for a spouse who hasn't

earned much during his or her working years could depend on the deceased, higher-earning spouse's benefit -- the bigger the higher-earning spouse's benefit, the better for the surviving spouse.

Consider taking your benefits earlier if:

- You are in poor health.
- You are no longer working and need the benefit to help make ends meet.
- You earn less than your spouse and your spouse has decided to continue working to help earn a better benefit.

Whenever you decide to begin taking your benefit, keep in mind that Social Security represents only 36% of the average retiree's income.[2] So you'll need to save and plan ahead -- regardless of whether you collect sooner or later.

[1]*Source: Employee Benefit Resource Institute, 2013 Retirement Confidence Survey, March 2013.*

[2]Source: Social Security Administration, "Fast Facts & Figures About Social Security, 2013."

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Tips for Improving Your Credit Scores

A score of 680 or lower will make it more difficult for you to get approved for credit and will probably increase the interest rate you are offered.

Americans have become more informed about certain aspects of their credit scores, but many still don't know enough about the risks associated with low scores and alleged "credit repair" services.[1]

While a majority of consumers know some of the basics about credit scores, many are still unclear about some of the most important facts. For example, a majority of respondents knew that mortgage lenders and credit card issuers use credit scores. However, less than 40% knew that many other service providers also use these scores, including landlords, home insurers, utility companies, and cell phone companies. A sizable minority also falsely believe that credit scores are influenced by their age (43%) and marital status (40%).

What You Can Do

A typical credit score will range between 300 and 850 points. Although all lenders make decisions based on the particulars of the lending situation, generally speaking, the higher your score, the lower the perceived risk to the lender, and the more attractive the interest rate you will be offered. A score of 680 or lower will make it more difficult for you to get approved for credit and will probably increase the interest rate you are offered.

Here are some tips for raising or maintaining a higher credit score:

- **Pay your accounts on time.** Lenders are looking for a proven track record of making timely payments. Payment history determines about 35% of your credit score.
- **Keep your balances low.** About 30% of your score is determined by what the industry refers to as your "credit utilization ratio," which is the amount you owe in relation to the amount of credit available to you. If that percentage is more than 50%, your score will be lower.
- **Open a credit card account.** While many Americans are turning to prepaid credit cards or debit cards to help them better manage their finances, this can work against your credit score. Without any credit history, you could be considered "unscoreable" and may have difficulty in obtaining credit.
- **Don't open too many credit lines in a short period of time.** Each time you apply for a loan or credit card, the lender will make an inquiry into your credit score, which typically knocks points off of your score.
- **Hold on to older, unused accounts.** The longer an account has been open and managed successfully, the higher your score will be.
- **Don't default on your payments.** If you default on a loan -- such as when you file for bankruptcy or a bank forecloses on your home -- it can knock up to 100 points or more off of your credit score.
- **Maintain a diversified credit mix.** If you hold an auto loan, a home mortgage, and credit cards that are well managed, you will generally have a higher credit score than someone whose credit consists mainly of finance companies.
- **Beware of credit repair companies.** The Consumer Federation of America warns consumers away from these companies, saying that they overpromise, charge high prices, and perform services, such as correcting credit report inaccuracies, that consumers could do themselves by simply contacting the lender and the credit bureaus.

[1]*Source: The Consumer Federation of America, Credit Score Knowledge 2013, May 2013.*

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