Living in Retirement Guide

Regions | Morgan Keegan

“With the right ongoing planning, living in retirement can be a comfortable time of financial independence.”

REGIONS | Morgan Keegan

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Expect more in your retirement

Your working years are your saving years, but at retirement, you reach your *spending* years. You may have income from Social Security, pensions, personal savings, and possibly wages from working part-time. The trick is to balance it all out and make it last.

But uncertainty abounds — you're not sure how long you'll live, how expenses might change, or whether the rates of return from your investments will continue to pay off. There are other considerations, too, such as inflation, taxes, health care, passing on your estate, and more.

So just like you planned for retirement, you also have to plan for *living in retirement*.

This complimentary *Living in Retirement Guide* can be a helpful resource. Also, you can call on your Regions retirement experts and financial advisors from our Morgan Keegan & Company investment partner. You'll get the professional attention you expect as you plan to make the most of your retirement.

What's here for you now…

→ **Take planning throughout your retirement to the next level with a complimentary review by a Morgan Keegan financial advisor — call 1-866-951-9511.**

What needs immediate attention?

> "From tax laws to income considerations and expenses… the right information and the right advice can save money, and preserve income and peace of mind."

Whether you're at retirement age or nearing it, timing is critical once you get there. From claiming Social Security benefits, to enrolling for Medicare, to taking IRA distributions, doing the right thing at the right time can greatly influence taxes, benefits, and expenses. These tips will help.

PENSIONS†

If you participate(d) in a traditional pension plan — also known as a defined benefit plan — you may receive monthly benefits from the plan after you retire. Depending on your plan's provisions, you may have more than one payout option to choose from. One option is a lump-sum payment where you receive the entire value of your plan in a single payment with no further payments to be made to you or your survivors.

Other options offer you and your spouse a joint-and-survivor annuity. With a joint-and-survivor annuity, payments continue as long as either you or your spouse is alive. When one spouse dies, the benefits paid to the surviving spouse generally cannot be less than 50 percent (or more than 100 percent) of the joint benefits. By contrast, with a single-life annuity, payments last for your lifetime and cease upon your death.

TAX TIP

Single-life annuity benefits are larger, which increases your taxable income.

Factors to consider:

— Life expectancy of spouse — if longer, the joint-and-survivor annuity may make more sense… if shorter, the single-life annuity may be the right choice because it pays a larger monthly benefit

— Insurance — the additional monthly income from the single-life annuity may be used to purchase life insurance to protect the spouse's financial future. Be sure to determine if the cost is worth the coverage

— Cost-of-living adjustment — if you have this insurance policy feature, benefits to a surviving spouse are periodically increased to keep pace with inflation. Consider a larger policy because there is more at risk

— Income tax — pension benefits are treated as taxable income

ROLLOVERS†

A rollover is generally a transfer of assets from a retirement plan maintained by a former employer to another retirement plan or IRA. Often, when employees change jobs or retire, they may leave retirement accounts "stranded" under the former employer's plan. Rollovers consolidate your funds into an up-to-date account that may be easier and less costly to monitor, and that may open up more investment options. You are simply moving your money from one tax-favored savings vehicle to another, allowing it to continue growing tax-deferred in the IRA or new plan, with little or no interruption.

There are many advantages to rollovers
With a direct rollover (trustee-to-trustee transfer), all of the money from your retirement plan is sent from your former employer directly to a Regions Morgan Keegan IRA. As long as the distribution check is not payable to you, there will be no taxable event or penalty for early withdrawal.

TAX TIP

You may lose some favorable tax treatment if you roll over highly appreciated company stock into an IRA — consult your tax advisor.

Another option is an indirect rollover, which involves your former employer sending a check made payable to you. You have 60 days to perform an indirect rollover. The check payable to you will be for 80% of your account balance and 20% will be withheld for income taxes. In this situation, to avoid being taxed on a distribution by the IRS, you must write a personal check for 100% of your previous employer's retirement account balance to an IRA. Any portion of your distribution that is not rolled over within the 60-day window will lead to a taxable event and a potential early withdrawal penalty. Check with the new plan administrator to make sure rollovers are accepted — and monitor progress to ensure they're handled correctly. Plus, be sure to follow the rules, such as obtaining a spouse's consent.

SOCIAL SECURITY†

Contact the Social Security Administration two to three months before you retire to file an application for benefits. No matter what your occupation, gender, or income level, you are eligible for Social Security retirement benefits until your death if you are:

Age 62 or older and a fully insured worker (Contact the Social Security Administration or visit www.ssa.gov for definition of a "fully insured worker")

A qualified family member of a fully insured worker (entitled to a percentage of the worker's benefit)

1. A non-working spouse of a retired worker
   (spouse must be at least age 62 and entitled to benefits on worker's record)
2. A child under the age of 18
3. The divorced spouse
   (must be currently unmarried and married to worker for at least 10 years)
4. Spouse, if caretaker of a child under age 16

You can retire before normal age, based on a sliding scale according to your year of birth — as early as 62 — to receive benefits, but the amount will be reduced. Or, you can delay retirement beyond normal age and receive increased benefits – contact the Social Security Administration or visit www.ssa.gov for details on retirement age.

DISTRIBUTIONS FROM EMPLOYER PLANS AND IRAs[†]

A withdrawal from an IRA is referred to as a distribution. Distributions can come in the form of several payment patterns, from a one-time (lump-sum) payment to a series of distributions over a number of years. Depending on how old you are at the time of the distribution, the payment may be classified as a premature distribution (made prior to age 59½), a normal distribution (between ages 59½ and 70½), or a Required Minimum Distribution (after age 70½). There are tax consequences to any type of traditional IRA or qualified plan distribution.

The premature distribution rule

Distributions you receive from your IRA or retirement plan before you reach the age of 59½ are generally considered by the IRS as premature distributions (or early withdrawals). To discourage these premature distributions, they are not only subject to the usual federal and state income taxes on distributions, but also to a 10% federal penalty tax (and possibly a state penalty tax). This 10% penalty tax is commonly referred to as the “premature distribution” tax. The IRS does allow some exceptions.

In the event you need to access your retirement funds prior to age 59½, you can avoid the 10% penalty by electing to receive your funds in a series of “substantially equal periodic payments.” There are three IRS-approved methods for calculating substantially equal periodic payments, each of which uses a factor representing your life expectancy (or the joint life expectancies of you and your beneficiary). It’s important to understand how these methods work and how recent tax law changes may affect your choice of method. The payments from your IRA must continue for at least five years, or until you reach age 59½, whichever is later.

Distributions from qualified retirement plans that are not rolled over to an IRA or another qualified plan may avoid the 10% penalty if all of the following are met:

- You received the distribution after you left the company; and
- You left the company during or after the calendar year in which you reached age 55; and
- Your departure from the company qualifies as a separation from service.

Distributions from Roth IRAs:

A withdrawal from a Roth IRA (including both contributions and investment earnings) is completely tax-free (and penalty-free) if: (1) made at least five years after you first establish any Roth IRA, and (2) you have reached age 59½ by the time of the withdrawal. Other exceptions may apply. Prior to age 59½, you may always remove your contributions both tax-free and penalty-free. However, the investment earnings may be subject to federal income tax as well as a 10% premature distribution tax. Roth IRAs are not subject to Required Minimum Distribution rules for the Roth IRA owner.

Required Minimum Distributions

Required Minimum Distributions, or RMDs, are amounts that the federal government requires you to withdraw annually from traditional IRAs and employer-sponsored retirement plans after you reach age 70½ — or, in some cases, after you retire.

Since the first distribution generally must be taken no later than April 1 following the year you reach 70½, this April 1 date is known as your required beginning date. Required distributions for subsequent years must be taken no later than December 31 of each calendar year until you die or until your balance is reduced to zero. This means that if you opt to delay your first distribution until April 1 of the following year, you will be required to take two distributions during that year — your first year's required distribution and your second year's required distribution. An exception occurs when you work and contribute to your company's plan beyond age 70½ (if the plan allows the exception and you are less than a 5% owner).

Caution: *If you fail to take at least the RMD for any year, or if you take it too late, you will be subject to a federal penalty. The penalty is a 50% excise tax on the amount by which the RMD exceeds the distributions actually made to you during the taxable year. Consult your tax, estate, and financial advisors for assistance.*

TAX TIP

If you made after-tax contributions to your employer retirement plan or traditional IRA, these contributions will be tax-free upon withdrawal, provided you meet all distribution requirements. Earnings and growth on these contributions while in the plan will be subject to income tax and the premature distribution penalty if withdrawn prior to age 59½.

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INCOME-GENERATING INVESTMENTS[†]

Annuities and bonds can provide a steady stream of earnings or interest payments. These can also provide a nice source of portfolio diversification since they may not directly correlate to the performance of common stocks and mutual funds.

Annuities

In its simplest form, you pay money to the annuity issuer, the issuer invests the money for you, and then the issuer pays out the principal and earnings back to you or a beneficiary. There are two distinct phases to the life of an annuity; one is the accumulation phase and the other is the withdrawal phase.

— You can choose to withdraw earnings (or earnings and principal) in one lump sum or over a period of time. You continue to have control. However, there is no guarantee that the funds in the annuity will last for your entire lifetime.

— A second distribution option is called the annuitization option. If you select this option, the current value of your annuity is converted into a stream of either fixed or variable payments. This allows you to receive a guaranteed income stream on a periodic basis (e.g., monthly, quarterly, yearly, etc.). Payments are computed using actuarial tables, which take into account the annuitant's life expectancy, and interest earned.

Bonds

Though they are not risk-free, bonds are considered somewhat less risky than stocks and are known for providing a predictable income. Upon retirement, you may want to consider additional bonds that either produce regular interest payments or lump-sum redemptions. Some bonds pay interest over time — and the full amount of the face value must be repaid to the bondholder at the maturity date. On the other hand, some bonds only pay interest when the bond is redeemed.

TAX TIP

The taxation of an annuity is relatively simple. Generally, each payment represents a partial return of your initial investment (return of capital), and a partial distribution of investment earnings. The portion of the payment that represents your investment earnings is subject to ordinary income tax, and the portion that represents your initial investment is not taxed. There may be a 10 percent tax penalty if you begin withdrawals from an annuity before the age of 59½. Consult with your tax or financial advisor for specific details.

MEDICARE AND HEALTH CARE EXPENSES[††]

Medicare is a federally funded health insurance program for people age 65 or older and with other qualifying conditions. Medicare helps cover medical expenses, but doesn't pay all of them. There are other costs such as coinsurance, copayments, and deductibles that you must pay.

Medicare has two parts — Part A and Part B

Part A (Hospital Insurance) — If you meet the criteria, you don't have to pay a premium for Part A. It helps cover your inpatient care in hospitals, skilled nursing facilities, and more.

Part B (Medical Insurance) — You must pay a premium for this optional coverage that has additional benefits. It helps cover doctor's services, outpatient hospital care, and more.

There are additional coverages from Medicare for an additional cost — these help with extra benefits like HMOs and PPOs (Part C), and drug plans (Part D).

Also, you might want to consider private insurers for other coverages and benefits, and for extended care in the event you are confined to a nursing home or other facility. Many people purchase long-term care insurance to protect a lifetime of accumulated savings, and provide control over their choice of high-quality care that is close to home/family.

In some cases, you may also continue your former employer's coverage temporarily with COBRA, the Consolidated Omnibus Budget Reconciliation Act. You pay a premium to continue your coverage after you leave your job.

Bottom line, health care is expensive. The proper coverage helps reduce your risk.

What can you do to stay on track?

"Careful planning helps avoid costly mistakes in retirement… it's good to have tips and techniques that can assist with making decisions."

Once you've taken care of immediate needs at retirement, remember that ensuring your financial well-being is an ongoing process. Plan for variations in expenses, rates of return on investments, healthcare costs, and more. Here are some pointers to help you stay on track.

Protect the nest egg and keep spending in check
When you do start spending your assets in retirement, you'll have to make them last. So think about the investing and saving it took to build up your nest egg. For example, if you saved for decades at a conservative figure of 5% return, you'll want to spend at about that rate — 5% per year. Of course, that is only a guideline. What's important is that you estimate your life expectancy, analyze your funds, know your expenses, and create a budget that will last your lifetime.

Make planning for expenses an ongoing practice
Keep in mind that your annual expenses may fluctuate throughout retirement. For instance, if you own a home and are paying a mortgage, your expenses will drop when the mortgage is paid off. Other expenses, such as health-related expenses, may increase in your later retirement years. An ongoing assessment will help you make decisions if you come up short:

— Watch non-essential expenses, such as dining, luxuries, or gift-giving
— Shift assets to investments that can outpace inflation
— Work part-time for extra income
— Assess your risk and make adjustments that protect you
— Protect yourself from health-care costs
— Take inflation into account (Approximately 3% annually according to U.S. Department of Labor)

Diversify investments
In retirement, it is common to have less tolerance for risk — so you want to ensure your portfolio is diversified to protect you from market fluctuations and more. A mix of traditional and Roth IRAs gives you unique tax-advantaged options. Annuities and bonds may provide steady income streams without as much market volatility as securities. And mutual funds and securities may give you the option to try more aggressive returns on investment. A good mix provides a balance and a cushion for risk.

Taxation
Without a doubt, there is so much to consider about taxes in retirement that you'll want to consult a tax advisor. But in general, you need to consider how your income is taxed — including investment earnings and retirement funds you withdraw — and how your estate and beneficiaries may be taxed upon your death. There are tools and techniques to minimize what you give to the government and maximize what you keep. But like all retirement planning, it requires critical attention. So again, consult your tax advisor and see additional areas in this guide for an overview — such as sections regarding IRAs and Required Minimum Distributions, Beneficiaries, Estate Planning, and more.

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What will happen with your estate?

> “Planning helps minimize estate taxes and other problems.”

You’ve done a lot to get here. Now, ensure your estate is thoroughly planned for while you can still make your wishes known.

ESTATE PLANNING†

Be sure to designate a beneficiary or beneficiaries for any retirement plans, traditional IRAs and Roth IRAs and to make sure the institution holding this plan has the required documentation. Failure to name a beneficiary typically results in unfavorable tax consequences and may cause you to sacrifice planning options.

Beneficiary Designation Options

— Most retirement plans require you to name your spouse as the beneficiary, unless he or she signs a written waiver consenting to your choice of another beneficiary. As long as your spouse consents, you can name anyone you wish. If you name more than one person, your beneficiaries will receive equal shares unless you specify otherwise.

— It’s common to name a minor (a child under the age of 18) as the beneficiary of a retirement account. You could name your children (if you’re a single parent), your grandchildren, or a young friend or relative. If you name a child as a beneficiary, you should also appoint an adult to act as guardian of the money. Otherwise, the court may have to appoint a guardian to handle the money if the child’s parents are no longer alive.

— You can name a charitable institution (such as a church, hospital, college, or university) as the beneficiary of your retirement account.

— In some circumstances it’s best not to name a trust as the beneficiary, but there are reasons to do so. It is not necessary to name a living trust as a beneficiary to avoid probate. As long as you name a beneficiary (other than your estate), the money won’t go through probate anyway.

— In most cases, you should avoid naming your estate as beneficiary. If you do, the money will go through probate prior to distribution and the income tax consequences are often quite undesirable.

In all cases, make sure your provider has a provision that allows a beneficiary to “stretch out” distributions as long as possible.

There are several post-death distribution options available to designated beneficiaries. The beneficiary should discuss these options with their financial advisor upon inheritance.

Estate Planning

Without an estate plan, the government or someone else may get more of the property you intended for your loved ones to inherit. Your goals and objectives are personal, but you can’t formulate a successful estate plan without a clear and precise understanding of what they are.

The following are some common goals and objectives you might consider:

— Provide financial security for your family
— Ensure that your property is preserved and passed on to your beneficiaries
— Avoid disputes among family members, business owners, or with third parties (such as the IRS)
— Provide for your children’s or grandchildren’s education
— Provide for your favorite charity
— Maintain control over or ensure the competent management of your property in case of incapacity
— Minimize estate taxes and other costs
— Avoid probate
— Provide for adequate liquidity for the settlement of your estate
— Transfer ownership of your business to your beneficiaries

The primary factors that may affect your estate are your beneficiaries, taxes, probate, liquidity, and incapacity. Larger estates may require more complex planning. It is all doable and as always, very important. Just consult an attorney or financial advisor and take it step by step.

What’s more?

Congratulations!

You’ve done a good job and worked hard to achieve your goals. And now, whether you’re at retirement age or nearing it, use this guide to help make the decisions you need to keep those goals on track. You can count on your Regions and Morgan Keegan financial advisors for guidance and advice on the best tools and options for your situation. We’re here to answer any questions you may have regarding retirement.

Additional Resources

The following Web sites and other resources focus on retirement and savings issues. (Listings do not serve as an endorsement of any resource over another.)

www.medicare.gov
Medicare Web site

www.ssa.gov
Social Security Administration Web site

www.aarp.org
AARP Web site

www.irs.gov
Internal Revenue Service Web site

www.360financialliteracy.org
Sponsored by: American Institute of Certified Public Accountants

www.cfp.net/learn
Sponsored by: Certified Financial Planner Board of Standards, Inc.

www.pathtoinvesting.org
Sponsored by: Foundation for Investor Education

www.morgankeegan.com

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The information provided is for illustrative and discussion purposes only. Morgan Keegan does not provide legal or tax advice.

You need to contact your legal and tax advisors for additional information and advice before making any investment decisions.

[††] Source: www.medicare.gov

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