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# Golden Strategies®

A Practical Financial Guide to Your Retirement



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## Prescription for Healthy Finances

**The looming pension crisis is not the only liability facing U.S. corporations and their retirees.**

**Another big storm is brewing over retiree health care. The companies in the S&P 500 are short more than \$320 billion needed to pay health-care benefits promised to current and future retirees.<sup>1</sup>**

In response to the challenge of paying retiree health benefits, many companies are dumping retiree health insurance entirely. In 2005, only 33 percent of firms with 200 or more employees offered health insurance to retirees, compared with 66 percent in 1988.<sup>2</sup>

Paying for health care is the top financial concern for people over age 50.<sup>3</sup> Considering that American life expectancies are increasing, health care could become one of your biggest expenses in retirement.

### Too Important to Risk

Having adequate health insurance not only helps protect your physical health, it could help protect your financial health, too. For example, a 65-year-old couple who live to age 80 can expect to pay up to \$216,000 in health-care-related expenses. If they live to age 90, the estimate increases to \$444,000. If they both see age 100, they could spend as much as \$778,000 on health care.<sup>4</sup> *(continued on page 3)*

### Health Care: A Top Financial Concern

Americans aged 50 and older rated health care as their most important financial concern. Here are the top-rated financial problems facing Americans by age group.

#### 50- to 64-year-olds

- Health-care costs — 18%
- Energy costs — 13%
- Lack of money/Low wages — 10%
- Retirement savings — 9%
- Unemployment/Loss of jobs — 6%



#### 65 years and older

- Health-care costs — 19%
- Energy costs — 10%
- Lack of money/Low wages — 10%
- High cost of living/Inflation — 7%
- Not enough money to pay debts — 4%
- Unemployment/Loss of jobs — 4%
- Taxes — 4%



Source: The Gallup Organization, July 2006

## WORKING WITH YOU TO HELP ASSURE YOUR FINANCIAL SECURITY

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## Leave More Behind

**In a recent survey, the federal estate tax topped the list of “most unfair” taxes.<sup>1</sup> Despite scheduled tax-rate reductions and a one-year repeal in 2010, the federal estate tax will be back in 2011. Thus far, Congress has attempted and failed to eliminate the tax permanently, but it’s notable that some form of the current estate tax has been in effect since 1917.**

If you’re worried that your estate will be subject to estate taxes and want your current life insurance policy to eventually go to your heirs instead of the IRS, you might want to consider a second-to-die life insurance strategy.

A survivorship (second-to-die) life insurance policy covers two or more lives and pays a benefit only after the death of the last insured individual. Thus, the proceeds can be used to pay estate taxes that can’t be avoided, which are typically due within nine months of the second spouse’s death. Placing the policy in an irrevocable life insurance trust keeps the proceeds out of the taxable estate and allows them to pass on free of federal estate taxes.

The federal government exempts all transfers of wealth between a husband and wife from federal estate taxes. However, this merely postpones taxes to the second spouse’s death. Federal estate taxes reaching 45 percent (in 2007) are owed on assets that exceed the applicable exemption amount (\$2 million through 2008). So if a large life insurance benefit increases the value of your estate to \$3 million, your heirs could owe up to \$450,000 in federal estate taxes.

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. Before implementing a strategy involving life insurance, it would be prudent to make sure that you are insurable by having the policy approved. The use of trusts involves complex tax rules and regulations, so consider the counsel of an experienced estate planning professional before implementing such strategies.

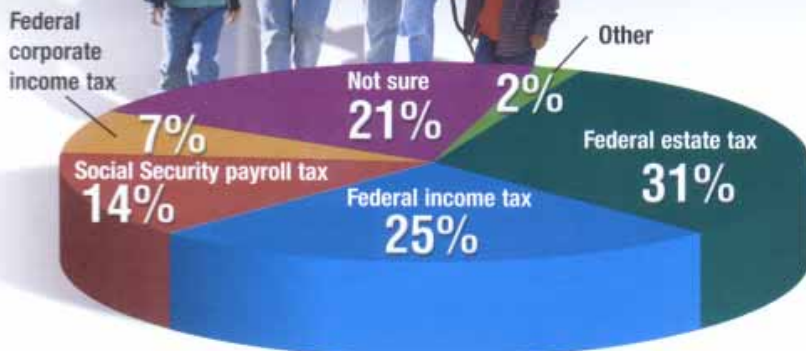
The federal estate tax may be here to stay. The insurance strategy described here can help provide funds to pay future estate taxes and leave a greater legacy.

<sup>1</sup>) Tax Foundation, April 2006



### That’s Not Fair!

Americans ranked the federal estate tax as being the least fair.



## Roll into Retirement

In 2003, 43 percent of workers who took a lump-sum distribution from their employer's retirement plan rolled the entire sum into another tax-qualified account, up from 19 percent in 1993.<sup>1</sup> The traditional IRA was by far the most popular destination for rollover money, accounting for more than 70 percent of recent lump-sum rollovers.<sup>2</sup>

When leaving their jobs, most employees are faced with the choice of leaving money in their employer-sponsored retirement plans, withdrawing the money (and possibly incurring tax penalties), or rolling the money into other retirement plans.

### Wealth of Options

In addition to continued tax deferral, IRA rollovers are attractive to investors for several reasons, most notably the wealth of investment options that may be available.

Many employer-sponsored plans offer limited investment options, but a traditional IRA can hold almost any investment, with certain exceptions such as your residence and "collectibles" (e.g., stamps and antiques).

Traditional IRAs also tend to offer greater flexibility than employer plans. You can change investments as your preferences change, rather than having to work with a slow-moving bureaucracy to change your retirement plan profile. Also, you don't have to worry about your investment options changing, as they sometimes do in employer plans.

### Rollovers: A Source of IRA Assets

Percent of total IRA assets, year-end 2004



Source: Investment Company Institute, July 2006

Remember that distributions from traditional IRAs and most employer-sponsored retirement plans are taxed as ordinary income and may be subject to an additional 10 percent federal income tax penalty if taken prior to reaching age 59½.

Just as retirement offers you more choices for how to spend your time, an IRA rollover can offer you more ways to invest your money. Call today to discuss rolling your assets from an employer-sponsored plan to an IRA.

1) *Journal of Financial Planning*, June 2006

2) Employee Benefit Research Institute, January 2006

## Prescription for Healthy Finances (continued from page 1)

Imagine trying to cover these amounts out of pocket. In the best-case scenario, unexpected medical expenses might consume money you had set aside for travel or a new car. But if you or your spouse suffered a catastrophic medical event, you could be forced to dip into resources that you were using to generate retirement income. Even worse, you could be forced to sell major assets or go into debt to help pay the bills. Although no insurance policy will cover 100 percent of your medical costs, the proper coverage could help offset a significant percentage.

With pensions on their way out and retiree health insurance close behind, it's a good time to review your financial situation. Having adequate health insurance is a risk-management strategy that few people can afford to live without.

1) *BusinessWeek*, July 31, 2006

2) Employer Health Benefits 2005 Annual Survey, The Kaiser Family Foundation and Health Research and Education Trust

3) The Gallup Organization, 2006

4) *Financial Advisor*, April 2006





## FINANCIAL FUNDAMENTALS

# Year-End Retirement Plan Checkup

According to the IRS, taxpayers paid over \$3.4 billion in penalties on qualified retirement plans for the 2003 tax year.<sup>1</sup> The end of the year is a great time to review how IRS rules affect your retirement accounts, especially the importance of taking required minimum distributions (RMDs), which have a December 31 deadline.

### Playing by the Rules

Generally, you must begin taking RMDs by age 70½. The latest date is April 1 of the year after the year in which you reach age 70½. However, in that case, you would have to take two distributions in the same year, which could affect your tax situation. Keep in mind that early distributions (before age 59½) may be subject to a 10 percent federal income tax penalty. All distributions from tax-deferred plans are taxed as ordinary income.

The IRS provides two tables to calculate annual RMDs. The Joint and Last Survivor Table is used by a married individual whose spouse is more than 10 years younger. The Uniform Lifetime Table is used by single individuals or married individuals with spouses closer to their own age. There's also a table for beneficiaries. Of course, you must consider all your retirement accounts (except Roth IRAs) when determining your total annual minimum distribution.

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*Are you prepared for the financial opportunities and challenges you may face in retirement? Call today to discuss strategies that can help position your finances for the future.*

*For help with your financial decisions,*

*Tom Lovde*

### It's Costly to Comply

This graph shows historical and projected total federal income tax compliance costs. In 2006, individuals, businesses, and nonprofits will spend the equivalent of a 22¢ compliance surcharge on every dollar of income tax collected.



Source: Tax Foundation, December 2005 (projected dollars for 2005–2015)

Failure to take an annual required distribution could result in a 50 percent penalty on the amount that should have been withdrawn. Account beneficiaries are also subject to complex IRS distribution rules, depending on whether the beneficiary is a spouse or a nonspouse.

Taxes are high enough without paying unnecessary penalties. Minding your distributions can help you avoid these financial pitfalls.

1) Internal Revenue Service, 2005