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Assessing Your Retirement Resources

How resourceful can you be during your retirement? Most people draw on three main sources of income: **Social Security**, **employer-sponsored plans**, and **personal retirement savings**. Each offers important resources that can help you fund the lifestyle you seek in retirement.

Social Security

Social Security offers a retirement benefit to workers and their spouses. You can start receiving benefits as early as age 62 (considered early retirement) or wait until you reach the **full retirement age** of 65 to 67 (depending upon your year of birth). The benefits you receive are based on the income you have earned over the course of your life, subject to a maximum amount. You can calculate how much you can expect to receive by visiting the Social Security Administration (SSA) website at www.ssa.gov.

Social Security benefits will most likely fall short of meeting all of your retirement needs. The maximum benefit for a person who retires in 2020 at full retirement age is $3,790 per month; the benefit for a nonworking spouse is considerably less. For most people, Social Security provides only a base level of income.

Employer-Sponsored Plans

Employer-sponsored plans are a staple of retirement income for many individuals. Many employers offer benefit packages that include retirement savings options, such as defined benefit plans, 401(k) plans, 403(b) plans (for nonprofit organizations), and Savings Incentive Match Plans for Employees (SIMPLEs). Here's how the plans work:

- With a **defined benefit plan** (also called a traditional pension), retirement benefits are generally based on a variety of factors, including salary, length of service, and a benefit formula that averages the employee's earnings over a prescribed period of years. In some instances, you, as an employee, may make additional contributions. To receive benefits, you generally must be employed for a certain number of years and reach the normal retirement age.

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Shielding Your Finances From Disaster

Whenever catastrophic events occur, they clearly demonstrate that our communities and livelihoods can be unexpectedly destroyed in a matter of minutes. In the aftermath, many victims of natural disasters struggle to get back on their feet financially. While there is no way to completely prevent a natural disaster, there are steps you can take to protect yourself and your family from financial difficulties should you be forced to evacuate your home in an emergency.

Here are some strategies to help prepare for potential disasters:

Store important documents in an "evacuation box." Gather and make copies of all your key financial and personal documents, including passports and birth certificates, marriage licenses, wills, property deeds, insurance policies, mortgage records, car titles, and stock and bond certificates. Make copies of the front and back of all credit cards and driver licenses. Then make a list of all your account and credit card numbers, as well as a written and photographic inventory of all your valuables. Be sure to have enough cash or travelers checks to last your family about three days.

Keep all essential documents in a bank safe-deposit box located away from your home or in an airtight, waterproof, and fireproof safe or container that can be easily taken with you in case of an evacuation. Inform family members or trusted friends of the box's location in case you are unable to personally retrieve it.

Maintain liquidity. Avoid tying up all of your assets in real estate or investments that cannot be tapped without paying penalties. Keep the equivalent of three to six months' income in a savings or money market account. You may also want to have on hand several credit cards with high available balances, or arrange in advance a line of credit for an emergency. If you have a 401(k) account with your employer, find out whether your plan allows you to take a loan out against your savings.

Protect your property. If you live in an area that is vulnerable to natural disasters, consider ways to mitigate potential damage to your property. Depending upon the type of disaster likely to strike in your location, you may want to take precautionary measures, such as anchoring the foundation and roof, installing hurricane shutters on windows and glass doors, adding fire-resistant siding, securing items that could fall or blow away, moving electrical panels and furnaces to upper levels, installing smoke detectors, and clearing brush from around the house. If uncertain, ask a building inspector to recommend structural or other types of improvements. By taking protective measures, you may be able to negotiate a reduction in your homeowners insurance premiums.

Purchase adequate insurance coverage and review your policies regularly. Many people who have lost their homes to disasters learn that their insurance policies do not cover the cost of rebuilding. If you have homeowners insurance, check your policy annually to ensure that it covers the actual replacement cost of your home and its contents. This is especially important if the value of your home has risen significantly or if you have made improvements to the property. Be aware that your policy may not cover damage due to specific causes, such as flooding. If the insurance you need is not available through private companies, find out if state or Federal insurance pools would provide coverage.

In addition, you may want to consider disability income insurance coverage to provide a source of income in case you are injured in a disaster and unable to work for a period of time. If you receive health benefits through your employer but lose your job, you may keep your coverage for a specified period of time under Federal COBRA laws. Also, make sure that your life insurance coverage is sufficient to meet the needs of your family. It may be possible to withdraw some or all of the cash value from a permanent life insurance policy, if necessary. However, access to cash values through borrowing or partial surrenders can reduce the policy's cash value and death benefit, increase the chance the policy will lapse, and may result in a tax liability if the policy terminates before the death of the insured.

Don't wait until disaster strikes—the time to prepare is now. Consider consulting a legal professional about the potential benefits of additional protection, such as trusts, powers of attorney, or living wills. 20/20

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Assessing Your Retirement Resources

When you retire, you may have options as to *how* and *when* you collect your benefits.

- A **401(k) plan**, offered by many private employers, provides you with the opportunity to contribute part of your salary, with restrictions, into a retirement account. Your employer may match your contributions, up to a predetermined percentage and subject to a maximum. In 2020, you can contribute up to $19,500, and those age 50 and over can contribute an additional $6,500. Your contributions are pretax, and any potential earnings are tax deferred, so payment of taxes will not commence until you begin taking distributions. If you withdraw money from your 401(k) before age 59½, you will incur a 10% Federal income tax penalty, except under certain qualifying circumstances.
- A **403(b)** plan is a 401(k)-type plan designed for employees of certain educational and nonprofit organizations. Your contributions are pretax, and potential earnings grow tax deferred. The contribution limit in 2020 is $19,500, with catch-up contributions of up to $6,500 allowed for those age 50 and older. At retirement, you pay ordinary income tax on your distributions.
- The **Roth 401(k)**, which is available through sponsoring employers, incorporates elements of both traditional 401(k) plans and Roth IRAs, a type of personal retirement savings plan. Your contributions are made with after-tax dollars, but potential earnings grow tax free and distributions are tax free, provided you are at least age 59½ and have owned the account for five years. You may contribute a maximum of $19,500 per year ($26,000 for those age 50 and older); that limit includes any contributions to a traditional 401(k) account. Matching contributions made by your employer must be invested in the traditional side of the 401(k) account, not the Roth. Under the Small Business Jobs Act of 2010, participants in traditional 401(k) plans are now permitted to roll over funds into Roth accounts within their plans, if available. Any eligible funds transferred to Roth 401(k) accounts are taxed in the year of conversion. Some 403(b) plans may also offer a Roth option.
- **SIMPLEs** are used by small businesses with 100 or fewer employees. A SIMPLE plan allows you to contribute up to $13,500 to a SIMPLE IRA or SIMPLE 401(k) in 2020. If you are age 50 or older, you may contribute an additional $3,000. Employer contributions, which are mandatory, can be in the form of either a 2% contribution to all eligible participants or a matching contribution that is generally 100% of the first 3% of compensation. Your contributions are pretax, and you defer payment of taxes until you begin taking withdrawals.

Because retirement savings options often differ from one employer to another, it is important for you to contact your employer's benefit coordinator for more information.

Personal Retirement Savings

Personal retirement savings may be the key to achieving your financial goals. Common complements to Social Security and employer-sponsored plans include the following:

Traditional IRAs allow you to set money aside in a tax-deferred account. Depending on your income and whether or not you participate in an employer-sponsored retirement plan, you may be eligible to take an income tax deduction. In 2020, the maximum contribution for all IRAs (traditional, Roth, or both) is $6,000, and those age 50 and older can contribute an additional $1,000. Even if you don't qualify for a deduction, your contributions have the potential to grow tax deferred; you pay taxes on withdrawals.

Roth IRAs permit earnings to grow tax free and distributions to be taken tax free, provided you have owned the account for five years and are at least age 59½. However, your initial contributions are not tax deductible. The contribution limits are the same as with traditional IRAs, including the guidelines for "catch-up" contributions, in the aggregate. In 2020, only taxpayers whose adjusted gross income (AGI) falls below certain levels ($124,000 a year for single filers, and $196,000 for joint filers) are eligible to contribute after-tax dollars to a Roth IRA.

With a sound assessment of your income resources, you can begin to plan for the retirement you want. **20/20**

Who Needs Disability Income Insurance?

I'm all set. I'll be fine. I've got plenty of insurance already.

Have you thought the same about insurance or made these statements before? Maybe you do have an appropriate amount of coverage, but do you have plans to protect your income stream in the future? Although many people understand that an unexpected accident or illness could affect their ability to earn income, they are unprepared for a sudden, permanent disability that could decimate a lifetime of savings and cut off income altogether.

Typically, permanent disability involves sustaining an illness or injury that results in an inability to perform certain work and daily activities for the foreseeable future. While some professions and occupations may be a higher risk than others, all workers who depend on their income may want to consider purchasing protection in the event of an accident or illness.

Consider the benefits of disability income protection under the following scenarios:

Jobs requiring specialized abilities. Replacing income without **disability income insurance** can be especially challenging; comparable pay and work conditions may be difficult to restore. Years of vocational training, professional experience, and education are invaluable but may be rendered useless if a disability occurs. Occupations that require physical labor are particularly vulnerable to physical disabilities; however, physical impairments are just *one* type of disability. Workers from all professions are equally vulnerable if an *emotional* or *mental* disability affects their usual functioning.

One- and two-income families. Parents, in-laws, siblings, or friends may not be able to offer immediate emergency financial help or ongoing support if you should become disabled. One-income households are particularly vulnerable to the permanent or temporary loss of that income. A family situation in which each partner or spouse covers between 30% to 70% of financial need may also be greatly impacted by the loss of one income.

Small businesses. Partnerships and corporations (i.e., business enterprises run by two or more owners) are particularly vulnerable to the effects of a disability. If a disability curtails the involvement of one owner, the other owner must either "carry" the co-owner or close the business. In addition to earnings lost, the disabled business owner may miss certain planning opportunities, such as preparing for retirement.

High stress, service, and production-oriented occupations. Long hours, deadlines, quotas, and

the heightened pace of modern living place a tremendous burden on both mind and body. While a healthy diet, physical exercise, meditation, and relaxation are popular stress inhibitors that may extend our life expectancies, even health-conscious workers face the possibility of sustaining a disabling accident or illness.

Group and individual disability income insurance policies cover most individual concerns and family or business situations. Careful planning with a qualified insurance professional can help ensure that you have the proper amount of coverage for your unique circumstances. **20/20**