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Legacy Planner

Retirement • Income • Medicare

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••• Pumpkin Cheesecake •••

Two of my favorite foods are pumpkins and cheesecake. Combine the two and they are delicious. This season I would like to share with you an easy recipe for pumpkin cheesecake. I made mine as bars, in an 8 x 8 cake pan instead of a pie pan. I hope you enjoy it as much as my family and I did.
—Melissa Bloemers

Ingredients:

- 2 (8-ounce) packages cream cheese, softened
- 1/2 cup white sugar
- 1/2 teaspoon vanilla extract
- 1 egg
- 1 (9-inch) prepared graham cracker crust (or make your own like I did)
- 1/2 cup pumpkin puree
- 1/2 teaspoon ground cinnamon
- 1 pinch ground cloves
- 1 pinch ground nutmeg
- Whipped topping, thawed

Directions:

1. Preheat oven to 325 degrees F. (165 degrees C.).
2. In a large bowl, combine cream cheese, sugar, and vanilla. Beat until smooth. Blend in the egg. Remove 1 cup of batter and spread into bottom of crust; set aside.
3. Add pumpkin, cinnamon, cloves, and nutmeg to the remaining batter and stir gently until well blended. Carefully spread over the batter in the crust.
4. Bake in preheated oven for 35 to 40 minutes, or until center is almost set. Allow to cool, then refrigerate for 3 hours or overnight. Cover with whipped topping before serving.

Who Needs Income? Is "Decumulation" Acceptable?

By Raymond Loth

We all need income, and after years of focusing on "accumulation" the thought of "decumulation" (definition: the use of accumulated assets…; the decrease in amount or value) is for many a challenging and even uncomfortable notion. Our industry commonly refers to this as "distribution planning," the phase of one's financial life that follows "accumulation".

I will address **4 basic areas** respecting income in this article: (1) concepts; (2) specific options in your annuity; (3) taxes;* (4) an important consideration.

(1) Concepts for income. A desirable concept during retirement is to live completely off of asset growth, without dipping into principal. For many however, that may not be possible. "Decumulation" can be done responsibly so as to avoid the likelihood of running out of money.

Any income planning requires good communication and monitoring which we work hard to provide for our clients. It is also important to utilize financial instruments that are well suited for the "distribution phase" of retirement. An advisor trade magazine, "Research on Wealth" summer 2017 edition after discussing "standard practice" for investing said ***"Goal-based investing*** **goes a step further. What is the purpose of these investments?...after all, people don't just invest to build wealth. They set money aside today for a future** ***purpose."*** The article went on to say **"Goal-based investing is more siloed, but potentially more effective."** So certain financial instruments are better suited for certain specific objectives like income distribution (see "Case Study" pg. 3).

Another well-established concept that we advocate is not to put funds that you are counting on to provide your basic income at risk. Experiencing losses to retirement accounts during the 5 to10 years before and/or after your actual retirement would be problematic if not devastating.

"If you're winning a race, it makes sense to be extra careful as you get closer to the finish line. The same is true with financial goals. 'As you get closer to when you need the money your risk aversion tends to go up. That's rational in my view because the time horizon is shrinking.'"
—*What's the Point of Investing?* by Michael Finke, and Anil Suri in *Journal of Wealth Management*

(2) Income options in your annuity.

- **RMD's.** If your account is a traditional IRA, 401k, etc., and you are over 70½ you have a "required minimum distribution"

"Who Needs Income?" continues on the next page.

(RMD). The IRS requires these withdrawals each year so they can start receiving some of the taxes due.

• **Interest.** You may simply want to take withdrawals of your growth on a monthly, quarterly, semi-annual, or annual basis.

• **Penalty-free.** Typically you can take out 10% of the account value each year after the first without penalty. This can be scheduled for regular income or done as needed. If you are out of the surrender period then your account would likely be 100% liquid.

Many companies we work with will have your check or EFT out the door within a couple days of receiving a fax/email with your signed request.

• **"Annuitization."** This is where you actually exchange your account value for a promised income stream. The terms and length of payout is highly customizable at set up. This is a very well established and highly recommended way to maximize guaranteed income.

• **Guaranteed Lifetime income rider.** These riders have become very popular, and planning years in advance with these can maximize their value. This is because they guarantee annual growth for future income, regardless of market performance. These, like annuitization, might be likened to a "personal pension".

(3) Taxes.* Annuities are inherently tax deferred so you do not pay tax on the growth until you make withdrawals. IRAs, etc. would be treated according to standard IRA rules.

I would also suggest that married couples who are in the upper side of the 15% tax bracket might want to have a conversation with their CPA about recognizing tax deferred income within, and maxing out, the 15% tax bracket. This could help avoid the future 'single' surviving spouse having to recognize income in the 25% tax bracket.

(4) An important consideration. Married couples know that their income will change when one of them dies. In addition to the loss of some Social Security it is important to know how any individual pension plans are affected. **Often times most household bills will be the same** and therefore expenses may not change much. This part of income planning needs to be considered.

We often use life insurance for income replacement and this can be purchased even for persons in their 80s! Even an inexpensive term policy can address the issue for a good number of your retirement years, after which savings may suffice for the then shorter remaining (spousal) retirement. There are also very attractive "death benefit" guarantee options as riders on some annuities (see "Case Study" on page 3). The above are good options, both for families without large savings, as well as those who have accumulated considerable assets and want to use them wisely.

In closing, I would like to **thank you very much** for allowing me to assist in your retirement planning and for recommending me to your friends and family. Please know that we take seriously our responsibilities in connection with your retirement income planning. You can also have every confidence that we will be here for a very long time to service your needs in this regard.

* Please consult with your accountant on all tax-related issues.

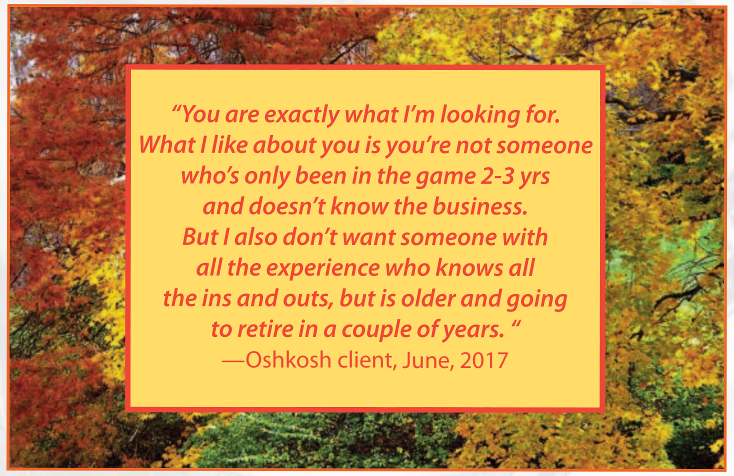

Photo: David Ohmer

• Do I Need to Do Anything During Medicare's **AEP** October 15 to December 7? •

Look out! You are about to get inundated with ads for Medicare's AEP, or Annual Election Period! What is it? How does it affect you? Should you be doing something?

What is it? AEP is the universal *opportunity that Medicare beneficiaries have to make changes* to their drug plan and/or Medicare advantage plan for January 1st. Making such changes at other times are only allowed under special circumstances.

How does it affect you? Typically *most drug and Advantage plans renew automatically*. Your plan will however inform you in October of updates to the plan for the following year. In the *unlikely case* that you are notified that your plan is ending, then you do need to find another plan.

Medicare Supplements are not bound by AEP. They do also typically renew automatically, but on your individual policy anniversary date. If however you want to drop your supplement and switch to an Advantage plan, then AEP would be the time to make such changes.

Should YOU be doing something? That varies by individual.

• Many people are happy with their current plan and don't need to do anything.

• If you have or expect significant **changes in your medical activity,** including expensive drugs, then a review is good.

• For others it is more of a **budgetary evaluation**. They may wonder if they are spending too much on monthly premiums. Others with low or no premium don't like paying the copays for services and maybe actually prefer a higher monthly premium.

Some clients go to great lengths to evaluate these plans and like to review them with me regularly. Others prefer the stability of the same plan, and are happy to know that I am watching out for their best interest. My job is to be of service to all of you.

"...Medicare's AEP" continues on the next page.

*"The Silent Generation:
First they learned in order to achieve financial independence, they must be great savers.
Second, they learned they must live within their means."*
—Van Mueller, *Retirement Advisor*, June, 2016

Case Study: Spousal Income

A couple came to me about 7 years ago looking for safe growth on their money. After a thorough evaluation of their circumstances I felt compelled to offer them **a suggestion that was more specific in its objective**.

They really had no future plans for this money and had additional funds available. They also had excess income. However, a very large percentage of their income was from the **husband's pension plan—which would not continue for the mate** in the event of death. Since the pension holder was older, male, and in somewhat less favorable health, I shared with the family my suggestion to address the distant but real likelihood that the wife might be left with a large reduction in income one day.

Since life insurance (a great income replacement or wealth transfer tool) was not an option I recommended an annuity with a guaranteed death benefit rider. The $100,000 in this **account received a 10% bonus** when it was opened **and the rider we included guaranteed 6.5%/yr. compounding interest for the "benefit base."** I made it clear to the clients that underlying account performance would be underwhelming, but the 6.5% growth on the "benefit base" designed for the future spousal income was totally guaranteed.

Sadly after about 6 years the husband died and we started a review for the wife. By that time the guaranteed income account had grown to about $160,500 which meant a guaranteed 5-year income payout of $2675/mo. This proved to be a **very powerful way to address a specific need in a guaranteed fashion.** This is the type of "siloed" planning discussed in the main article that would be hard for any other financial instrument to compete with. —*Raymond Loth*

"...Medicare's AEP" continued...

I will be reaching out to those who've specifically mentioned this past year that they want to review things. Of course, **I invite all of my clients to get in touch with me if you have any specific concerns.** I work with many companies and can explain and assist you with any questions that you may have.
—*Raymond Loth*

Photo: David Monniaux

Ask the Professional...

What happens to my account if I die?

When we set your account up you designated beneficiary(ies). With an annuity your named beneficiary(ies) get paid their designated percentage of your account value as they would with life insurance. In almost all cases there are **no surrender charges or penalties to the beneficiary**. Your beneficiary will have options other than a lump sum payout including continuing the account or periodic payments. Some accounts are set up with the *specific intention of creating an income stream at death* (**see "Case Study" at left**), these can be very attractive financially for your heirs and are often set up to provide income for a spouse (**see main article "Who Needs Income?"**).

TAXES:* The beneficiary will be liable for taxes due on the account both with IRAs as well as with non-qualified annuities since their growth is tax-deferred. There is no income tax on most life insurance proceeds.

The actual claim process involves submitting claim paperwork with a death certificate. ***We prepare that paperwork to simplify that process for your family.*** All they need to do is (1) decide on payout options and tax withholdings, (2) provide a death certificate and (3) review and sign their names. **We send the paperwork in, track its progress until completion, and *communicate with your family at least weekly* during the process.**

I would like to **emphasize the importance of having these matters cared for by a knowledgeable and caring advisor**. In the *recent past I have caught two significant mistakes* by very reputable companies regarding these matters. In each case the correction was *worth over $40,000* to the family. While these things are rare, they do happen and you want an advisor that *knows and cares enough to take the time* **to make sure that your family is being taken care of properly**.

Finally the money you have in life insurance and ***annuities will likely be some of the first funds that your family receives***. These accounts **do not go through probate** if you have a named individual as your beneficiary. Also, most companies I work with have a check out the door within a week of receiving proper paperwork.

Please call with any questions, or to review who your stated beneficiaries are.

*Please consult with your accountant on these matters as we are not able to provide tax advice.

—*Raymond Loth*