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THE FINANCIAL INSIDER



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# America's Changing Vision of Retirement

Retirement planning is a primary reason for long-term saving, and when people think about retirement, finances are often the focus. However, it is important to also look at the *nonfinancial* aspects of transitioning from the world of work to the world of leisure. Specifically, lifestyle changes and self-esteem issues associated with the loss of your professional identity may create difficulties. As you're preparing strategies for your future well-being, give some thought to the *kind* of retirement you envision for yourself.

Consider the following questions: What do you find fulfilling? What gets you out of bed in the morning? What are your strengths and weaknesses? Do you work well as part of a team, or do you thrive on solitude? Do you have a lot of physical energy, or do you prefer a more sedentary pace? Do you have a hobby you always wanted more time to pursue? Don't be afraid to think outside the box. This informal self-inventory may hold the key to your vision for retirement.

### Challenging Conventions

The concept of retirement in America is changing. Traditionally, retirement has been idealized as a leisurely phase of life, a reward for the many years of working and raising children. This concept is based on the assumptions that people will enjoy themselves in retirement, and that work, as we commonly know it, is the province of younger generations. However, is this concept realistic for those of us still years away from retirement, and if it is, is it what we really want? Rethinking retirement means reexamining conventional ideals to determine whether they apply to today's reality and what we envision for ourselves.

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# Fixed Annuities: Prepare for Retirement

Accumulating retirement savings to last a lifetime is an important financial goal for many Americans. **Fixed annuities**, which offer a guaranteed fixed rate of return and tax-deferred earnings, as well as income that can last for life, can be an option for current and future retirees, depending on their circumstances.

When you purchase a fixed annuity, you receive a guarantee that your money will earn interest at a specified rate and that your return (the money paid back to you) will occur on a set schedule in fixed amounts. Guarantees and payment of lifetime income are contingent on the claims-paying ability of the issuing company. Generally, there are two premium options: **single premium** (one lump-sum payment) or **multiple premiums** (payments made in installments). Payouts can begin immediately or at a future time, but they are usually scheduled for retirement and can last for your lifetime or another scheduled length of time.

Retirees often favor **immediate annuities**, which begin to provide income at regular intervals as soon as a single lump-sum premium has been paid. **Deferred annuities**, often favored by those *saving* for retirement, accrue interest over time (the accumulation period) with the payout scheduled to begin at a future date. In both cases, earnings are tax deferred.

### Favorable Tax Treatment

Because annuities help people save for retirement, they receive favorable tax treatment.

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# Is it Time to Refinance?

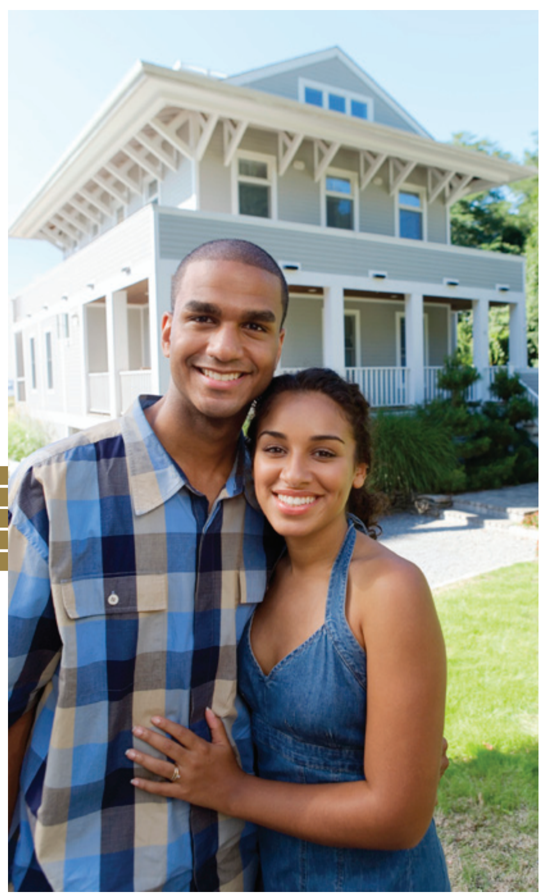
Over time, mortgage rates fluctuate. Depending on where rates currently stand, now may or may not be a good time for homeowners to consider **refinancing** their mortgage. How can you determine whether it makes sense at any given point to refinance your mortgage?

In the past, if the current interest rate was 2% lower than the rate you were paying on your existing mortgage, it made sense to refinance. That general rule may still apply in some cases. However, even if the rate were less than 2% lower than your existing rate, refinancing may still be an appropriate choice.

In addition to taking advantage of favorable interest rates, you might want to seriously consider refinancing to do the following:

**Move from an adjustable rate to a fixed rate mortgage.** Many first-time homebuyers must go with an **adjustable rate mortgage (ARM)** because they do not qualify for a fixed rate loan. If this was true for you, perhaps the rate for your ARM is about to go up. If so, you may be able to "lock in" a lower rate by refinancing with a fixed rate mortgage.

**Build equity at a faster rate.** Perhaps you would like to pay off your mortgage in less than the traditional 30 years. A drop in interest rates may allow you to refinance your 30-year mortgage and replace it with a 20- or 15-year mortgage at a monthly payment that may be close to what you have been paying. This option may be especially attractive to homeowners who are nearing retirement and would like to pay off their mortgages before they retire.



**Replace a jumbo mortgage with a conventional loan.** In most states, any mortgage over $417,000 is considered a **jumbo mortgage** (that amount is higher in expensive housing markets, such as Alaska, Hawaii, the U.S. Virgin Islands, and much of California). Jumbo mortgages have higher interest rates than do conventional loans. The difference between the rate for a jumbo mortgage and a conventional mortgage depends on the current market price of risk: and it can be significant—usually between 0.25% and 0.5%. If you have a jumbo mortgage, you may be able to refinance and pay down enough to qualify for a conventional mortgage, to get the lowest possible interest rate.

**Take advantage of a lower interest rate.** The most common reason for refinancing is that the current interest rate is significantly lower than the rate you are paying on your existing fixed rate mortgage. You will also need to consider variables such as refinancing costs, points, and how long you plan to stay in your home. It is always wise to shop around to ensure you are getting the lowest rate possible and paying the lowest cost.

**Eliminate private mortgage insurance (PMI).** PMI, which is required by most lenders if your original down payment was less than 20%, is tacked on to your monthly payment. If the value of your home has increased since you bought it, you may be able to have the PMI removed just by having your house appraised. Or you can eliminate the PMI when you refinance if you have more than 20% **equity** in your home.

**Tap into your home's equity.** If you have other debt or are anticipating new expenses, such as college tuition bills, you may want to refinance for a larger mortgage at a lower interest rate and use the extra cash to pay off the debt or forthcoming tuition bills.

Deciding when to refinance depends on the current rates, your personal financial situation, and your plans for the future. You may want to do some number crunching in advance to determine how much rates would need to drop for refinancing to make sense for you. Then you will be ready to make your move. $

## America's Changing Vision of Retirement

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Intrinsic to the conventional notion of retirement are significant assumptions about work, money, and retirement standards of living. For previous generations, work was thought to be something you did for about 45 years (until roughly age 65), and then, suddenly, you never had to (or wanted to) work again. A company pension, Social Security, and some savings generally provided enough income for funding a comfortable lifestyle in retirement, including leisure, travel, and recreation.

If that's what you want for your retirement, there is nothing wrong with pursuing that goal. However, for some, work is too much a part of their sense of "self" to be suddenly cast aside. Moreover, with so much of their daily lives centered around work, some people have difficulty imagining their life without that structure.

Furthermore, changes in employer-sponsored retirement plans (i.e., the decline of defined benefit plans and the rise of defined *contribution* plans) have altered our expectations about retirement funding. The responsibility has shifted from employ*er* to employ*ee*, which means that an individual's long-term saving for retirement must now be factored in with other savings objectives, like purchasing a house or funding a college education for children, and ongoing financial responsibilities.

Finally, the traditional concept of retirement is based on the belief that one's standard of living will be sustainable in retirement, and it may be for some. For others, however, it may be more practical to ask what standard of living can be maintained based on projected resources. This type of approach might help you see what is realistic (and what may be unrealistic) in your situation, and it may help you set more realistic retirement priorities. For some people, downsizing their standard of living in retirement may be acceptable. For others, however, maintaining the same standard of living during retirement as during their working years may be the goal.

### Consider Phased Retirement

As you consider the traditional concept of retirement, you may discover that it doesn't meet your needs. *Phased retirement* is a term coined to describe a range of employment arrangements that allow an employee who is approaching retirement to continue working, usually with a reduced workload, in transition from full-time work to full-time retirement. Many individuals may want to continue some form of work, such as consulting, job-sharing, mentoring, or providing back-up management. Mentoring, in particular, enables an individual to transfer a lifetime of learning and experience to a friend, relative, or younger colleague. Aside from money earned from continued work, phased retirement may help you maintain a feeling of involvement in the world and may provide a sense of purpose.

For some, phased retirement may be an option. For others, it may be a necessity. For still others, phased retirement may provide structure to daily life and the opportunity to explore other activities while maintaining a meaningful role within an organization, the community, or society in general. What's most important, however, is to define your vision of retirement in a way that makes sense to you and is realistic considering your goals and resources. $

# A Short Course in Insurance: Permanent vs. Term

When choosing **life insurance** coverage, you may wonder which type is more appropriate for your situation. During life stages, you will probably review and update your insurance coverage, as your needs change. There are two basic types of coverage—**permanent** (sometimes referred to as **cash value**) and **term life insurance**. Let's take a closer look at the short- and long-term benefits of each.

### Permanent Life Insurance

Permanent life insurance helps provide financial security for surviving loved ones upon the death of the insured, and also builds cash value for the policyholder. Premium payments first pay the cost of the policy coverage, including the expenses and mortality factors of the insurance company. Then, the insurance company invests any remaining amount in order to build the cash value of the policy. Permanent life insurance combines protection with cash value as assets and earnings accumulate over the life of the policy, and the policyholder can generally access these funds for any purpose.

Some permanent policies provide policyholders with nonguaranteed **dividends**, which are the result of favorable mortality experience, investment results and expense savings that result in a surplus for the insuring company. Dividends can be taken in cash or used to pay future premiums or to purchase additional life insurance coverage, but are not guaranteed.

Premium amounts for permanent insurance will not change as long as they are paid in accordance with the schedule set forth in the policy. Payments continue for a predetermined period, as chosen by the policyholder. The length of the payment period and the amount of coverage will affect the premium cost. Permanent life insurance protection is guaranteed, which means that as long as premiums are paid on time, the insured is guaranteed coverage for life in accordance with the terms of the policy. Guarantees are based upon the claims-paying ability of the policy issuer. Evidence of insurability will never be necessary as long as the original policy remains in force, and benefits will never decrease.

As for the cash value component of permanent life insurance, funds may be borrowed against the cash value of the policy at a predetermined loan interest rate. No repayment schedule is set beyond regular payment of interest on the loan, with outstanding loan balances deducted from the death benefit. These loans are generally tax free, and there are no restrictions on their use. Access to cash values through borrowing or partial surrenders can reduce the policy's cash value and death benefit, increase the chance that the policy will lapse, and possibly result in a tax liability if the policy terminates before the death of the insured.

### Term Life Insurance

In a term life insurance policy, there are three basics to consider: 1) The period of protection is for a predetermined, specified term; 2) policies do not accumulate cash values like permanent insurance; and 3) premiums may initially be lower than permanent life insurance premiums, but will rise over time as set forth in the policy document.

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## A Short Course in Insurance: Permanent vs. Term
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Nonrenewable, nonconvertible term insurance for one, five, or 10 years may provide the most affordable protection, especially for those who require coverage to back a business loan, cover the cost of a mortgage, protect minor children, etc. Premiums will, however, increase over the period of protection. Term insurance is also available for longer durations (e.g., to age 95), but increasing premiums may result in higher overall costs than permanent life insurance over the long term.

Term insurance may be ideal to help cover a specific need, such as an outstanding mortgage. These needs can be met by purchasing coverage for a specified period of time and at the lowest premium cost. In fact, many companies offer decreasing term insurance in which the value of the death benefit decreases over time, as in the case of covering a decreasing mortgage balance.

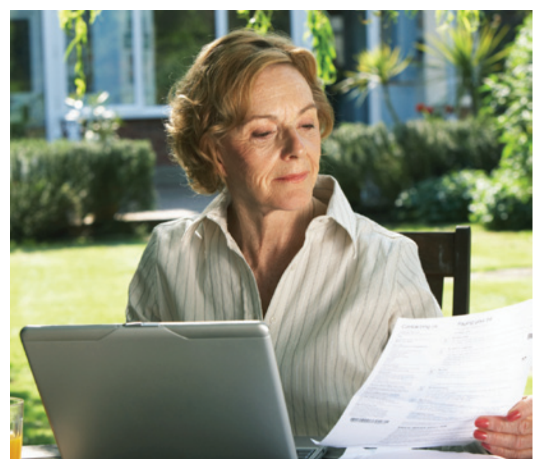
### Which Product and When?

Life insurance serves many purposes. When determining an appropriate amount of coverage, it is important to consider your short- and long-term goals, current financial status, and what you can afford. A thorough review of your needs with a qualified professional can help you choose a suitable policy for your situation.

*Note:* Life insurance policies contain exclusions, limitations, reductions of benefits, and terms for keeping them in force. Your financial professional can provide you with costs and complete details. $

# Long Term Care Insurance: The Importance of Annual Reviews

Long term care insurance is just like any other piece of your financial puzzle. Periodic monitoring can help ensure your insurance continues to meet its desired objective. An annual review provides an opportunity for you to re-examine your coverage, analyze relevant Federal legislation that may impact your policy, and assess any changes in your personal financial situation.



### Items for Review

Once a year, review your policy contract and its terms. You may want to pay particular attention to the following items: the existing coverage amounts, criteria for receiving benefits, and procedures for filing a claim. If you have chosen an inflation protection option, reevaluate your current benefits with respect to projected costs for long term care. Your policy may also carry a provision to upgrade your contract without additional underwriting.

If you own a tax-qualified policy, it is important to be aware of any Federal legislation that may affect your policy. For example, a portion of your premiums may be deductible, depending on your age and the total amount of your deductible medical expenses. Be sure to consult your qualified tax professional for more information.

### Changing Circumstances, Changing Needs

An annual review also gives you an opportunity to examine your current financial situation and determine what impact recent circumstances may have on your existing long term care plan. It is important to make sure your coverage meets both your short-term and long-term financial goals.

Staying current also means knowing how your long term care coverage fits into your overall estate plan. Look at your policy in the context of your wealth transfer strategy, and fine-tune your estate plan with your professional advisor, as needed.

Long term care insurance can help preserve your assets, increase options for care, and ease the financial and emotional burden of caregiving on your loved ones. After obtaining coverage, don't leave your policy in a drawer to gather dust. An annual review can help ensure your coverage continues to meet your extended care needs in the future. $

# Calculating Your Break-Even Point

Regardless of their specialties, all business owners have a common goal—profitability. But before you can turn a profit, you first have to break even. Spending more money than you are taking in to produce a product or provide a service can quickly deplete your company's capital. Even if your business has a financial cushion to allow you to operate in the red for a period of time, be conscious of the areas in which losses are occurring and have a plan for steering your company into the black.

As you may already know, the break-even point is the number that must be reached before an investment begins to generate a positive return. To analyze the success of your business, you need to identify the point at which revenues cover expenditures on each of the products and services you provide, as well as on your overall operations. Because these break-even points shift as conditions change, break-even analyses are most useful if performed regularly, such as on a quarterly basis.

## Crunching the Numbers

While there are a number of methods for determining a break-even point, one fairly simple approach is to calculate how large the company's gross profit margin needs to be to cover its fixed costs.

To begin, add up all the fixed costs associated with your business operations, such as rent, payroll (including your own salary), debt payments, insurance, and similar overhead expenses. Next, calculate the gross profit margin on the products or services you sell. The gross profit margin is a financial metric used to determine the percentage of funds left over after deducting purchasing and production costs. The gross profit margin can be calculated on a per-unit basis or by subtracting variable costs from the sales price. The break-even point can then be calculated by dividing your fixed costs by your gross profit margin.

For example, imagine you have calculated your expenses and determined that your monthly fixed costs amount to $50,000. Then, assume your business consists of manufacturing gadgets at $3 per unit and selling them at $10 per unit, giving you a gross profit margin of $7 per unit, or 70%. When your fixed costs of $50,000 are divided by your gross profit margin of 70%, the resulting figure is approximately $71,429. This means you would have to sell 7,143 gadgets in a given month to break even. If sales dip below 7,143 units per month, your business is losing money, whereas any sales above this threshold represent profit.

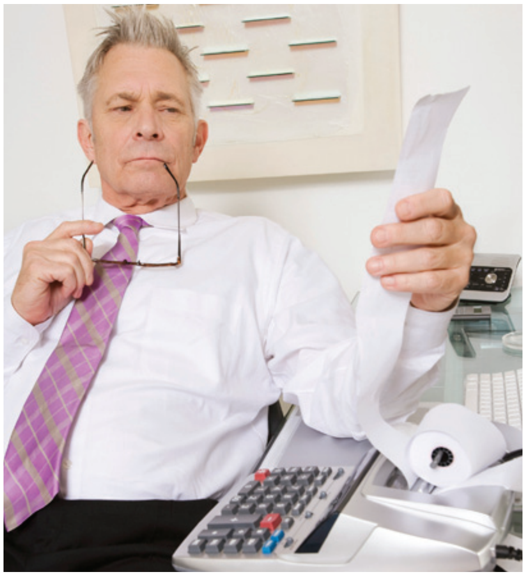
However, the calculations can become more complicated when multiple product lines are involved or when expenses change frequently. In addition, there are other factors that can affect the financial health of a business over time, such as projected changes in market conditions. Therefore, a break-even analysis can be seen as a basic tool that provides an indication of where a business stands at a given point in time, and it may be best used in conjunction with other financial measures.

## Evaluating the Figure

A break-even analysis can provide important preliminary information about the status of your business. If the results of the analysis reveal that your sales are not sufficient to cover expenses, or that your profit margin is smaller than anticipated, there may be ways to lower your break-even point.

Begin by investigating ways to reduce the cost of purchasing or producing your products, or providing your services. Is there another supplier that could provide raw materials at a lower cost? Are there options for production that are more affordable?

Next, think about ways to trim overhead expenses without compromising your operations. Finally, consider raising prices. Small, incremental price increases are likely to be tolerated by your customers, especially if you offer consistently superior quality and service. Implementing small changes in one or more of these areas may enable you to reset your business's break-even point and move your company toward greater profitability. $



# Survivorship Life: A Win-Win Proposal

If you are looking for a flexible and creative life insurance product, you may want to consider **survivorship life insurance**. Often referred to as ***last-to-die*** or ***second-to-die*** life insurance, this coverage insures *two* individuals, but provides only one death benefit payable at the death of the second insured. In some instances, especially when the insured individuals are nearing retirement, it may be less expensive than a single life insurance policy on one individual.

Cost savings are possible because the insurance risk is spread over the life expectancy of two lives rather than one. In fact, two individuals can be insured even if one is medically "uninsurable," therefore providing added planning potential for otherwise difficult situations.

## Benefits for Estate Planning

Survivorship life insurance is often used as a vehicle to fund estate taxes. Even with the appropriate wills, trusts, and property-ownership designations, married individuals who properly balance their estates are still subject to estate tax on assets exceeding the **applicable exclusion amount** of $5.45 million per person for 2016. In this type of situation, a survivorship life insurance policy can be an integral part of an estate plan.

For example, consider the hypothetical case of Adam and Julie. Adam and Julie are both 60 years of age and have three adult children. They have updated and signed the appropriate legal documents (**wills**, **trusts**, and so forth) and repositioned their asset ownership to maximize their individual applicable exclusion amounts. For a married couple in 2016, $10.9 million can potentially pass to their heirs free of estate taxes. However, the remainder of their assets may incur as much as a 40% Federal estate tax in 2016.

One solution to this problem would be to create an **irrevocable trust** to purchase a survivorship life insurance policy on their lives. The trust would own and be the beneficiary of the policy and, thus, would allow the policy proceeds to pass to the trust beneficiaries (the couple's children) free of estate taxes. Adam and Julie could also *gift* the policy premiums to the trust using their **annual gift tax exclusions** of $14,000 (indexed for inflation) per person per donee for 2016. In order to qualify for the annual exclusion, the trust would need to contain a provision called a **Crummey withdrawal power**.

## Enhancing Charitable Gifting

Even if an individual does not foresee any estate tax problems, survivorship life insurance can be a dynamic method to enhance any gifting program. Suppose Adam and Julie's net assets total $600,000 and they have little concern about estate taxes. However, they make an annual gift of $5,000 to a favorite local charity. Rather than gifting $5,000 in cash to the charity every year, they may choose to leverage their gift and pay the premium on a survivorship life insurance policy. This insurance gifting program can be arranged so that the charity would be the owner and beneficiary of the new survivorship life policy. Adam and Julie would then receive an annual charitable deduction for their gift, and the charity would ultimately receive a life insurance death benefit.

## Maintaining Business Continuity

In a more advanced use, survivorship life insurance can be effective in helping to ensure continuity in a closely held business. For instance, passing a family-owned business of substantial value to heirs may be hindered by potentially high estate taxes that, in some instances, may require a forced sale of the business in order to raise the necessary cash to pay the taxes. A survivorship life insurance policy can be purchased on the lives of the owner and his or her spouse, with the death benefit providing cash to help meet estate tax obligations and keep the business in the family.

Whether you have concerns about potential estate taxes or wish to leverage the value of a gift to your favorite charity, a survivorship policy can help provide a relatively high benefit for a minimal cost. Be sure to consult your team of professional advisors, including tax and legal professionals, for specific advice about your unique circumstances. $

## Fixed Annuities: Prepare for Retirement

*(continued from page 1)*

Tax deferral allows your potential earnings to accrue **compound interest** without immediate taxation, which can add to the value of your savings. Unlike some qualified retirement plans, annuities are not subject to income or contribution limits. Annuity premiums that are not part of a qualified retirement plan are paid with after-tax dollars. Your principal contribution will not be taxed again, but interest *earnings* are taxable. When you have fully recovered your initial premium, the remaining payouts are fully taxable.

The tax benefits of fixed annuities do include a restriction: If withdrawals are made before age 59½, there may be a 10% Federal income tax penalty, in addition to any income taxes due. Furthermore, if you withdraw funds during the accumulation period, the issuing company may levy surrender charges. Annuities offer no additional tax advantages when used to fund a qualified plan.

It is important to keep in mind that fixed annuity contracts include rules, restrictions, and expenses that may vary by product and issuing company. In addition to surrender charges as mentioned, there may also be annual fees for management expenses, and upfront fees could include mortality and expense charges. Make sure you fully understand all options, restrictions, and expenses for your specific annuity, before purchasing a policy.

### Income for Life?

Once you own an annuity, you'll need to select a **payout option** when you reach the annuitization date, usually at retirement. Most annuities offer a number of different payout choices, and the amount you receive generally depends on your age when you begin to receive payments, the value of the contract, and the payout option selected (gender may also play a role). Here's a brief overview of some basic options:

**Life Only.** This option provides income for life and generally provides the largest benefit of all the options. You can receive payments monthly, quarterly, semi-annually, or annually.

**Life with Term Certain.** With this option, you'll receive income for life. If you die before a stipulated time (the term certain), usually 5, 10, 15, or 20 years, the payments then continue to a **beneficiary** for the remainder of the term certain.

**Joint and Survivor Life.** Under this arrangement, two individuals receive annuity payments for both their lives. When one dies, the other continues to receive income, or some portion of it, for the remainder of his or her life.

**Installment Refund Life.** With this option, if you die before you have received at least as much as your original premium payment(s), the balance will be paid out to a beneficiary in installments.

**Unit Refund Life.** This option is similar to the installment refund life option, except that the beneficiary receives the balance in a lump sum.

**Payments for a Specified Period.** With this option, payments are made for a pre-specified term, generally ranging from one to 30 years, and then continue to a beneficiary if you die before the term ends.

Fixed annuities can be an important part of your overall savings and retirement income strategy, helping to meet diverse financial goals and objectives. If you are currently saving for retirement, a fixed annuity can help supplement your existing long-term vehicles, such as a **401(k) plan** or an **Individual Retirement Account (IRA)**. If you are a retiree, a fixed annuity can provide you with a regular income stream during your golden years. Remember, the time to plan for the future is now. Be sure to consult with your personal advisors for information applicable to your unique circumstances. $

*Note: Fixed annuities are neither insured nor guaranteed by the FDIC; they may decline in value if surrendered prior to maturity. Guarantees are based on the claims-paying ability of the issuing company.*