STIFEL

CASHING IN; HARMING YOUR FAMILY?

White Paper Volume 2, No. 3

Written by Richard Ward, CFP®
First Vice President/Investments

More Than a Gold Watch

So you've concluded that it's finally time to leave the corporate world and move on. Surely this was not an easy decision. After all, your work has been central to your life for so many years. The company is where you really made your mark, achieved respect, and possibly made a very comfortable living. These are results that are not easily duplicated, so leaving all this behind is not something done lightly. But chances are you've been discussing this with your spouse, your most trusted advisors, and others you count on for advice. You've worked hard to get to this point, and you can now see the day when you no longer have to carry all the professional responsibilities. Hopefully this vision is one that pleases you for the new opportunities you'll have for the future.

Or does it? Perhaps you've already adjusted to the idea of others being in charge and your not earning the same measures of respect you received in the past. But the company also provided for a very comfortable lifestyle that will have to be replaced. And this new endeavor will be challenged by taxes, new investment responsibilities, unforeseen events, and other risks. Are you at all worried that in "cashing in," you may be harming your family?

"Thanks for Your Support" – Uncle Sam

Your kids and spouse aren't the only family members counting on your support. The other dependent is your "favorite uncle" – Uncle Sam. He'll continually be asking for more from the most critical assets you'll be counting on to cover your lifestyle needs. If you've been diligent in saving for retirement for many years, you're likely looking to IRAs, company retirement accounts (401(k), Profit Sharing Plans, etc.), and personal investments to pay for your expenses and other commitments for the rest of your life. And if you don't carefully follow IRS regulations when receiving or re-titling these assets, you may inadvertently make your "favorite uncle" very happy. If distributions from company retirement plans are paid to you (and not deposited to an IRA Rollover account within 60 days), you will owe ordinary income tax on this entire amount (Ouch!). Even if you intend to roll over the entire distribution, a check sent to you from the company plan must exclude the 20% withholding tax sent to the IRS (and you'll only get it back when you file your taxes if you've been able to come up with the withholding amount to also deposit into your IRA rollover)! And don't forget about state taxes that might take even more. So, how well do you think you'll live with the thought of reinvesting 60 to 70 cents on the dollar realized from your retirement savings?

"That's a monthly deposit?" – Your Spouse's New Complaint

A regular monthly pension check from the company has gone the way of the family station wagon. Unfortunately, these days most of us must create our own "paycheck" or income to cover our expenses and other plans/commitments in our retirement years. This will likely come from your investments, nearly all of which are subject to taxation as they produce returns (or as distributions are received from IRAs and annuities), further diminishing their value. So hypothetically, a $1,000,000 IRA earning and distributing 5% per year would yield about $2,700 per month after taxes. Unless you're prepared to steadily deplete this retirement fund, this is what you should expect. No wonder your spouse may keep reviewing the bank account and asking, "That's a ***monthly*** deposit?"

Can you give yourself a "raise"?

But do you have to settle for such a meager lifestyle for fear of investment risk and outliving your investments? With the right strategies, not necessarily. While overly cautious investing (in money market or savings accounts, bank certificates, short-term government notes, and the like) will almost certainly require many sacrifices, a well-crafted and diversified strategy may produce better results with reasonable short-term volatility. Investments with a higher potential return carry greater risk of loss. However, understanding the normal fluctuations of markets over long periods may allow you to make your portfolio much more productive and last much longer. Also, including variable annuity insurance vehicles that offer lifetime income guarantees can also reduce concerns over portfolio volatility as well as longevity. Similarly, wise tax planning can reduce taxes both on investment earnings as well as when and how much is lost from tax-deferred investments. Following such an approach, you may well be able to give yourself a raise. You should consult with your tax advisor regarding your particular situation.

So, it is feasible to make this change to the second half of life without doing as much harm to the family's future. Appropriate financial, tax, and estate planning advice and strategies may help save taxes, increase future income, and help the family for years to come while also allowing for important contributions to the community and our society.

Decisions to roll over or transfer retirement plan or IRA assets should be made with careful consideration of the advantages and disadvantages, including investment options and services, fees and expenses, withdrawal options, required minimum distributions, tax treatment, and your unique financial needs and retirement planning. Stifel does not offer tax advice. You should consult with your tax advisor regarding your particular situation as it pertains to tax matters.

A Guaranteed Minimum Withdrawal Benefit (GMWB) provides income protection, not principal protection. In other words, your investment may decrease in value due to poor market performance, but your income will not be reduced. Guarantees are subject solely to the claims-paying ability of the issuing insurance company and do not apply to the safety or performance of amounts invested in the variable investment options. There may be conditions, limitations, and restrictions associated with a particular GMWB. A guaranteed minimum withdrawal benefit is an optional feature that is provided at an additional cost. The cost varies by company, and depending on the annuity company, this charge may be calculated on either the account value or benefit base. Most annuity companies reserve the right to increase this charge if there is an account value step-up of the benefit base (up to a maximum stated fee). This would be in addition to investment account fees and the annuity mortality and expense charge.

Annuities are suitable for long-term investment and entail fees, such as mortality and expense charges and optional benefit rider charges. All withdrawals of taxable amounts, including earnings, are taxable as ordinary income. Withdrawals may be subject to surrender charges, and if made prior to age 59 ½, may be subject to a 10% federal tax penalty. Withdrawals reduce the cash surrender value.

Investors should obtain a prospectus for an annuity's contract and the underlying subaccounts and consider the investment objective, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other important information, is available from your Financial Advisor and should be read carefully before investing. Variable annuities are not insured by the FDIC or any government agency and involve market risk, including the possible loss of principal.

STIFEL
Investment Services Since 1890
Stifel, Nicolaus & Company, Incorporated | Member SIPC & NYSE | www.stifel.com
20 Pacifica, Suite 1400 | Irvine, California 92618 | (877) 816-1224