

Planning for Retirement



Knowledge is Power

It's really never too early – or too late – to do retirement planning. The younger you are, the more you benefit from a longer period to accumulate assets and invest them, as well as think about how best to spend them once you finally retire. If you'll soon be retiring or have perhaps retired already, you'll want to use the time you have wisely. Still, with a few adjustments here and there, you may well be able to make your retirement years more enjoyable.

Here is a list of basic points for consideration:

- How would you like to spend your retirement years?
- What will your desired lifestyle cost?
- How much can you save and invest?
- Maximize the financial resources you can draw upon in retirement.
- Don't overlook ways of supporting Wheaton that result in retirement cash flow.

Determine how you'd like to spend your retirement years.

Although many people travel, devote more attention to family and friends, increase their volunteer involvement, or concentrate on hobbies and leisure activities, you should feel free to settle on your own mix of passions and pastimes. Just remember that retirement can have several phases, so allow both for the development of new interests, as well as the possible need to accommodate eventual changes in health and mobility.

Try to get a good sense of what your desired lifestyle will cost.

In large measure, this will be a function not only of what you want to do, but also where you live – both the part of the country (or the world) in which you choose to settle and the nature of the four walls you'll be calling home. Recognize, too, that you won't necessarily live in the same place throughout retirement. Moreover, continue to budget for things that are elements of your life currently such as personal and health care expenses (Medicare won't cover all of them!), food, clothing, transportation, emergencies, and our seemingly constant companion: inflation.

Save as much as you reasonably can and invest appropriately.

People often underestimate – sometimes significantly – what their desired lifestyle will cost. Others may be quite realistic about what they will need but have difficulty putting enough aside over the years or fail to manage responsibly whatever wealth they have been able to amass. Building your nest egg should be a high priority.

Maximize The Financial Resources You Can Draw Upon in Retirement.

- **Defined-benefit pensions** – Your employer covers the full cost and what you receive will usually be very reliable. Payments are fully taxable as ordinary income.
- **Defined-contribution plans** – Employer sponsored and take the form of qualified retirement plans, such as 401(k) and 403(b) plans, or some types of IRAs, such as SEP and SIMPLE IRAs. These plans feature limits on how much can go in each year and are typically funded with some combination of contributions made by your employer and pre-tax portions of your salary or wages. Account balances grow tax free, but distributions are fully taxable as ordinary income.
- **Traditional IRAs** – Depending on your level of income, traditional IRAs can be funded with your own pre-tax money or, less commonly, after-tax money. Traditional IRAs can also receive money “rolled over” on a tax-free basis from certain other arrangements, such as 401(k) plans. Account balances grow tax free. When distributions from a traditional IRA are taken, they will be taxable as ordinary income in proportion to the amount of pre-tax money you contributed or rolled over.

- **Roth IRAs** – These, too, are funded with your own money, specifically after-tax dollars. This means that whatever is eventually distributed comes out tax free. Also, whatever remains in the account grows tax free.
- **Tax-deferred annuities** – As the name suggests, after-tax money of your own that you invest in these products grows tax free. Any increase in value beyond the amount you invested is taxable as ordinary income when distributed.
- **Individually owned savings and investment accounts, certificates of deposit, etc.** – These are funded with after-tax dollars, plus whatever you earn is taxable. Still, certain investments can produce capital gains, which are generally taxed more favorably than interest and other sorts of ordinary income.
- **Employment** – For some people, “retirement” means continuing to work a bit longer, albeit on a part-time basis. Similarly, working full time for an extra year or two can make additional assets available for use in connection with one or more of the options above.
- **Social security benefits** – Despite concerns about the long-run health of the social security system and the size of benefits one can count on, this extremely common form of retirement cash flow definitely needs to be taken into account.
- **Non-financial assets** – Things that save you money can be just as valuable as a stream of payments. Examples would include good health, smart purchasing, and having loved ones nearby and available to help when needed.



Don't Overlook Ways of Supporting Wheaton College that Result in Retirement Cash Flow.

If you are precluded from making additional contributions to an IRA or a qualified retirement plan, a charitable life income plan can supplement existing arrangements. Here are some of your choices:

- **A charitable gift annuity** makes favorably taxed lifetime payments to you (or to you and your spouse), plus you receive an up front tax deduction. If you're still working, you can defer the start of the payments, whereas if you are retired, you'll likely want the payments to begin immediately.

- **A charitable remainder trust** is similar to a gift annuity in some respects but offers greater flexibility. This can be very appealing if you would like a tax deduction and don't need additional income now but would like to secure a source of payments in retirement.
- Your personal residence – including a vacation home – can be deeded to Wheaton subject to a **retained life estate**, enabling you (or you and your spouse) to continue living there as long as you wish. The older you are, the larger the tax deduction you receive.
- If you are age 70 ½ or older, you can make an **IRA charitable rollover** to Wheaton College directly from your traditional IRA. Such a distribution will satisfy your annual minimum required distribution and permit a tax-free gift of up to \$100,000 to Wheaton. The IRA charitable rollover legislation was made permanent in December, 2015 so you can take advantage of this tax advantaged way of giving every year. Separately, drawing on assets in an IRA or a qualified retirement plan to make current gifts to Wheaton can sometimes make sense for anyone over age 59 ½, although careful planning is required.

Finally, because retirement planning vehicles such as defined-contribution plans, tax-deferred annuities, and many IRAs contain income that has never been taxed, you'll want to devote attention to your **beneficiary designations**. Previously untaxed amounts left to family members and other individuals will be taxed when received by them but not when received by Wheaton, which is a tax-exempt entity. Likewise, tax savings can be combined with providing for heirs when certain retirement plan assets are used for a gift annuity or a charitable remainder trust at the end of your life.

NEXT STEPS:

To receive further information and assistance on retirement planning, or to learn more about how your gift can help Wheaton College, please contact Michelle Kovach.

- call **(508) 286-3459**
- email **kovach_michelle@wheatoncollege.edu**

* Because everyone's situation is different, we encourage you to seek professional legal, estate planning, and financial advice before deciding on a course of action. This information does not constitute legal or financial advice and should not be relied upon as a substitute for professional advice.