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MONTHLY NEWSLETTER

TFS Insurance Advisor

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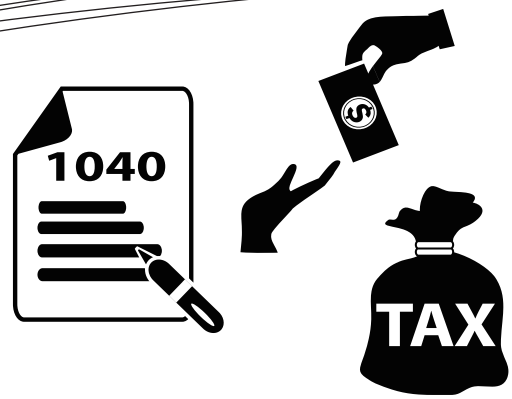

From the Desk of

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this issue:

Know How to Maximize Social Security in Retirement

Social Security can provide an income you can't outlive. But can it provide enough income? Benefits may replace up to 57% of income for lower income workers but only 27% for higher income workers.

Social Security Pays

Social Security pays out approximately $1.9 billion in benefits each day. Most of the payout comprises retirement and survivor benefits which possess unique characteristics:

- You can't outlive them
- You can receive automatic cost of living adjustments
- You need not be an investment expert

For a program so big and beneficial, it pays to know how it works and consider how you can maximize it.

Know How Qualification Works

In order to receive Social Security retirement benefits, a worker needs 40 credits. The most a worker can earn in a calendar year is four credits. Benefits are based on a worker's highest 35 years of earnings indexed for inflation. Years with no earnings count as zero, thus lowering the average career earnings and the monthly retirement benefit.

Retirement Income Sources (Social Security Leads for 65+):

36%	Social Security	9%	Private Pensions
32%	Earnings	9%	Government Employee Pensions
11%	Asset Income	3%	Other

Know How Social Security Retirement Benefits Work

- **Benefits are based on Full Retirement Age (FRA)**. For those born between 1943 through 1954, FRA is age 66 and 0 months. Starting benefits at any time other than FRA results in either a decrease or an increase in benefits.
- Retirement benefits are **payable to a worker as early as age 62**. A spouse can also receive benefits based on the worker's earnings history.
- **A spouse can receive up to 50% of the worker's full retirement benefit**, reduced if the spouse is less than full retirement age. The worker must have filed for benefits.

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1040: Determine Tax Savings

According to a recent study, higher taxes are the top financial concern in retirement preparation today. Additionally, millions of Americans are paying taxes each year on interest income that they are not using.

An annuity can be a good solution for those who want to lower their current income tax liability and don't anticipate needing or using the interest generated in the near future.

Line 8A: Identifies your earned taxable interest. Do you need this interest income to cover expenses? If not, an annuity can help reduce your current taxable income because it provides tax deferral.

Line 43: Taxable income. The amount of an individual's taxable income determines his/her marginal tax rate.

Do determine what you could have saved in taxes last year, multiply line 8a (taxable interest) by the marginal tax bracket. This means you could have increased the refund found on line 73 by this amount. Or, you could have reduced the amount you owe, line 76, by this amount.

Deferred Annuity Advantages:

- Reduce current taxes
- Tax-deferred earnings
- Tax control
- Save for retirement

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- **A divorced spouse can receive a benefit** even if the ex-spouse is not retired. The divorced spouse must have been married at least 10 years, have not remarried and be at least age 62. The ex-spouse worker must also be at least age 62. Benefits paid to a divorced spouse do not affect the benefits of an ex-spouse worker's current spouse.
- **Early retirement** results in a permanent reduction in benefits from what would have been received at full retirement age.
- If a worker files for **early retirement**, benefits will be reduced 5/9 of 1% each month for the first 36 months plus 5/12 of 1% for the remaining period until the worker reaches FRA. At age 62, this results in a 25% permanent reduction in benefits.
- If the spouse of a worker files for **early spousal retirement benefits**, the reduction is 25/36 of 1% for the first 36 months plus 5/12 of 1% for the remaining period until the spouse reaches FRA. A spouse filing for benefits at age 62 would receive 35% of the worker's full retirement benefit.
- **Delayed retirement** increases monthly benefits. Benefits are increased on a monthly basis at a rate of 8% per year from age 66 to age 70 (up to a maximum 32% increase over full retirement benefit).

Know How Survivor Benefits Work

- **Survivor benefits** (when not caring for an eligible child) are payable as early as age 60 for a spouse. This is known as a widow's or widower's benefit.
- **To qualify for survivor benefits**, a worker must have a minimum of 40 credits at the time of death if age 62 or older. The requirement decreases one by one each year to a minimum of six credits needed if age 28 or younger.
- **A surviving spouse can receive benefits as early as age 60** with a reduction for benefits received before the surviving spouse's full retirement age. A surviving spouse will not receive survivor benefits if remarried before age 60. Remarriage at age 60 or later will not disqualify the surviving spouse from receiving survivor benefits. A divorced spouse, married at least 10 years, must comply with the same rules. Benefits payable to a divorced spouse do not affect the benefits of the surviving spouse.
- **The amount of survivor benefit payable** is 100% of the deceased worker's full retirement age benefit, if death occurs on or before full retirement age and the surviving spouse is at least full retirement age. If the deceased worker earned delayed retirement credits, the surviving spouse's benefit will be based on the higher amount. At age 60, the minimum benefit would be 71.5% of the full retirement age benefit.
- A worker need not be receiving Social Security for survivors to be eligible for benefits.

Know How Benefits May Be Taxed

Social Security may be subject to income tax. Depending on income level and tax filing status, most (85%), some (50%) or none of the Social Security benefits will be taxable. Benefits are taxed at the marginal income tax rate of the person receiving them.

Know How Benefits May Be Reduced

If you are younger than full retirement age and earn more than certain amounts, your benefits may be reduced.

- $1 in benefits is deducted for every $2 earned in excess of an annual earned income threshold amount. For the year of full retirement age, $1 in benefits is deducted for every $3 earned in excess of a higher earned income threshold amount. Beginning in the month of full retirement age, a person can earn an unlimited amount with no reduction in Social Security benefits.
- Earned income is derived from working (salary, wages, commission, etc.). Interest earnings, capital

gains, pension and annuity income are not considered earned income and will not cause a reduction in benefits.

- Benefits withheld before full retirement age are recaptured starting at full retirement age, resulting in higher monthly benefits later.

Know How Claiming Strategies Work
Social Security does not provide benefits automatically. You must file to receive them.

- For worker or spousal retirement benefits, file three months before you want them to start.
- Survivors currently eligible for benefits should file in the month of death.
- Survivors currently ineligible for benefits should file three months before turning age 60 or at retirement, if later.

Consider Some Claiming Strategies
Delay Filing
For maximum benefits, delay receipt until age 70.

File and Suspend
Once a worker reaches full retirement age but continues to work, file and suspend. Filing allows a non-working spouse to receive benefits; suspending allows the worker to continue to earn additional benefit increases up to age 70.

File at Different Times
Working couples may find it advantageous for the lower earner to take Social Security at age 62 while the higher earner continues to work until age 70.

File Early
Consider filing early if health is a factor. Having an income could be more important than maximizing benefits. The earliest age at which retirement benefits can be claimed is 62.

Know that Social Security by Itself May Not Be Enough
Some combination of other income sources, such as a pension, savings, retirement plans and employment, will likely be needed. Consider IRAs and nonqualified annuities, both deferred and immediate, for lifetime needs. Consider life insurance to enhance survivorship ease and comfort.

Will Your Plans to Leave a Legacy Lead to a Tax Bill Instead?

Saving for the future and maximizing savings are probably more important today than ever. If you have accumulated a nest egg in retirement plans like IRAs and 401(k)s, it is common to focus on the accumulation years, when you can take advantage of the special tax rules that can help you accumulate what may be one of your largest assets. When thinking about the next phase of these plans, the distribution phase, when will you draw on the money you are accumulating?

The distribution phase can have a few challenges that some planning ahead can help you overcome, especially if your goals include:

- Providing funds for your heirs to pay the income taxes due on your retirement assets.
- Making it possible for your heirs to leave those assets to grow in a tax-favored manner.
- Exploring a Roth conversion that can generate income tax-free distributions.

When weighing options for handling these challenges, be sure to consider the benefits of life insurance. By providing a death benefit to your beneficiary when you die, life insurance provides liquidity. This can allow heirs to:

- Receive an inheritance and immediate liquid assets.
- Meet income and estate settlement obligations to avoid the need to liquidate taxable retirement funds.

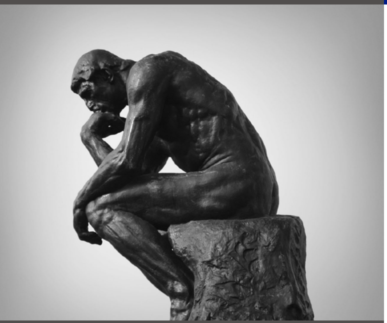
Did You Know?

An estimated 45.3 percent of American households (about 77.5 million) will pay no federal individual income tax, according to a nonpartisan Washington-based research group. (This does not necessarily mean they won't owe their states income tax.)

Roughly half pay no federal income tax because they have no taxable income, and the other roughly half get enough tax breaks to erase their tax liability.

Other facts:

- The top 1% of taxpayers pay a higher effective income tax rate than any other group (around 23%).
- On average, those in the bottom 40% of the income spectrum end up getting money from the government.
- The richest 20% of Americans, by far, pay the most in income taxes, forking over nearly 87% of all the income tax collected.
- The top 1% of Americans, who have an average income of more than $2.1 million, pay 43.6 percent of all the federal individual income tax.
- The top 0.1% - just 115,000 households, whose average income is more than $9.4 million - pay more than 20 of the total tab.



HERE'S A THOUGHT...

"Perserverance is falling 19 times and succeeding the 20th."
- Julie Andrews

- Keep retirement accounts intact so they can stretch distributions over their lifetimes.
- Convert retirement accounts so distributions are potentially income tax-free (Spouses can do this.).

Life insurance can help heirs pay taxes on traditional IRAs and qualified plans.
When you die, the money you have in your traditional IRAs and qualified plans will become "income in respect of a decedent," or IRD. After your death, IRD is taxable income to your beneficiaries when it's distributed, reducing the amount they will ultimately receive. And, if your estate is subject to state and federal estate taxes, your retirement assets will be taxed again, further reducing the amount your heirs receive. While an income tax deduction is available to your heirs for the federal estate tax paid, significant taxes will be due. Your estate and your heirs can pay these taxes using the death benefit of a life insurance policy, effectively leaving the IRA to retain the full value you intend for them to receive.

Life insurance can help with the IRA minimum distribution requirement.
Soon after you reach age 70½, you are required to begin taking distributions from your traditional IRA and retirement accounts—even if you do not need the funds. This erodes the amount your heirs will receive. Plus, your beneficiaries are also required to continue to take distributions from the account after your death. To offset erosion of the IRA's value, you could pay the premiums for life insurance out of unneeded required minimum distributions or other assets. Another option is to calculate the smallest permitted distribution, based on a lifetime payout. This is known as "stretching," and it minimizes the amount that must be withdrawn by spreading the IRA or retirement account value over your lifetime and the lifetime of your beneficiaries. The assets are left to potentially grow each year, income tax-deferred.

Make sure your estate has sufficient liquidity so your beneficiaries can inherit more of what you leave them.

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