

# 21<sup>st</sup> century retirement



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Executive Benefits • Employee Benefits  
Wealth Preservation and Insurance Planning

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With life expectancies on the rise, many Americans can expect to live 20 to 30 years in retirement. For many people, the perception of retirement may lead to thoughts of pursuing passions and accomplishing long-standing goals, such as exotic travel or new business pursuits. However, with so many dreams to fulfill and a growing number of retirement years to plan, an early start to retirement planning has never been more crucial. So, regardless of your age, it is important to begin planning today for your future financial independence and that of your loved ones.

As you create your retirement plan, you may find that the inclusion of **permanent life insurance**, also known as **cash value life insurance**, may be beneficial. Permanent life insurance can offer protection to your family during your working years when financial obligations may be greatest. This type of insurance can be valuable in the long term, because the younger you are, the more affordable it may be. In addition, the longer the policy is held, the greater its potential future value may be. Here are some ways in which permanent life insurance may help safeguard your financial outlook in retirement:

**1. Lifestyle benefits.** Building assets to generate sufficient income is a major concern of many people planning for retirement. As life expectancies increase, your existing assets must support you for an unspecified number of years. Permanent life insurance may help ensure that a surviving spouse will be financially sound with tax-free income from the death benefit provided by the policy. Additionally, couples may choose to access the cash values to supplement retirement income or to pursue a lifelong goal. However, any cash value that is not repaid will reduce the policy's death benefit amount.

**2. Burial expenses.** End-of-life medical and burial expenses can be significant. Unfortunately, without life insurance coverage or any pre-planning in place, surviving family members may have to pay these expenses from their own assets. The proceeds of a life insurance policy can be used to help cover these expenses.

**3. Estate protection.** Many people are concerned about the legacies they will leave their heirs. Permanent life insurance can create an instant estate for the named beneficiary. It can also provide funds to help cover the cost of

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## Baby Boomers: Looking Toward Retirement

Unlike previous generations, many Baby Boomers are concerned that they may not be able to depend on their Social Security benefits for retirement income in an unpredictable economic climate. Further, many employed Boomers may not have or contribute to *employer-funded* retirement plans. Following the shift that has occurred in recent decades whereby employees, rather than employers, generally assume full responsibility for funding their retirement plans, it's not surprising that many Boomers are planning to remain in their jobs longer.

How do you determine if your savings and assets will sufficiently fund your retirement years? Here are some areas to estimate and analyze to get a clearer picture of where you stand:

- Potential income sources (e.g., income-producing real estate, inheritances, etc.)
- Projected balances of retirement and savings plans
- Costs of future health care needs
- Annualized rate of inflation over retirement years
- Amount of Social Security income to be received

- Percentage of present income required during retirement years
- Length of years retirement may last or life expectancy.

As is true for every generation facing the retirement planning process, Baby Boomers need a *disciplined* savings program in place. With a commitment to save as much as possible and a scheduled plan, you can work toward building the necessary retirement funds to secure your own financial future. Be sure to consult a qualified financial professional about your unique circumstances. ■

## Retirement Planning and Updating Your Will

Whether you are decades or months away from retirement, it may be prudent to review your will whenever there is a significant change in your family circumstances or finances. To stay current, revisit your will at least once every five years to help ensure your estate tax strategies are on track, and that your assets will be distributed according to your wishes.

### Seek Counsel

Legally, you could draft a will on your own. However, it is recommended that a will be drawn up by a lawyer. Besides the inherent complexity of estate planning, states have different standards and often require specific language in order for the document to be deemed valid. If you draft your own, have your will *reviewed* by a lawyer so you can be assured that all statutory requirements are met.

A married couple may draft a will jointly or separately as individuals. Separate wills may help specify *who owns what* property. The portion of your estate covered by a will includes *tangible* assets, such as your home or car, as well as *intangible* assets, such as savings accounts held in your name. (Property owned jointly with right of survivorship will pass directly to the surviving owner, while other assets, such as life insurance death benefits, will automatically pass to your designated beneficiaries.)

### Be Thorough

Whenever you update your will, the new document should include the date, a statement revoking all previous wills, provisions for trusts (if any), names of guardians and alternates for minor children (if necessary), and specific bequests.

A specific bequest calls for the transfer of a *particular piece* of property to a named beneficiary, while a general bequest does not specify from which part of an estate the property is to be taken. Be sure that the updated and signed document also includes your full name, a statement that the document is a will, and the names of the executor and substitute executor.

Once you have reviewed and updated your will, make copies for yourself and family members, or others who may need the information. Be sure the original is kept in a secure place, such as a bank safe-deposit box or lawyer's office. Also, make sure your family and friends know where the will is located. Once these tasks are completed, you can feel confident, knowing that your wishes will ultimately be fulfilled. ■

## The Importance of Minimizing Your Retirement Risks

With the median net worth of American families showing signs of stagnation and traditional pension plans disappearing, even as the growing number of retirees places pressure on the Social Security system, workers who are currently trying to plan for retirement are facing an uphill battle, according to a report released by the Society of Actuaries Committee on Post Retirement Needs and Risks (CPRNR), the Urban Institute, and the Women's Institute for a Secure Retirement (WISER).

"The Impact of Running Out of Money In Retirement," published in November 2012, summarizes the findings of academics and practitioners in areas of government policy, actuarial science, and financial services relating to the difficulties middle-income Americans in particular face in saving for retirement, and ways to help these workers achieve their retirement income goals.

"There is no denying that the aging of the population, the decline of the defined benefit pension plan, the stress the growing number of retirees will put on our social benefit systems, the potential for unanticipated personal, political, and economic events near or after retirement, and the struggling world economy have created growing and unanticipated challenges to an individual's ability to manage his or her financial resources for the duration of retirement," the report's authors said.

Researchers further observed that today's retirees are facing higher costs for fuel and food, an increasing share of growing medical costs, and lower housing values. "How will they manage their retirement income given these pressures?"

the report asked. "What options are available to them to help them adjust to these changes?"

The report showed that 71% of older adults are adequately prepared for retirement, but that outcomes vary substantially by marital status, as 80% of married adults are adequately prepared, compared with only 55% of single adults. In addition, outcomes differ substantially by other demographic characteristics, with women being far more likely than men to lack sufficient savings and assets for retirement, e.g., only 29% of single older women without high school degrees are adequately prepared for retirement.

As defined contribution plans place the major responsibility for accumulating and managing retirement assets on the employee, the need for education and guidance is more important than ever. This may be especially evident in the middle-income group, who are resource constrained, and may not be able to afford impartial advice from planning professionals, and yet lack the information or skills to make decisions on their own, the experts warned. Members of this group are therefore more likely than the high-income group to rely on friends, family, or the Internet for advice on pre-retirement financial decisions.

"Traditional financial planning approaches are heavily focused on managing assets and, thus, work best with clients with significant



financial assets," the report concluded. "They may not address key needs for people with limited or no assets, even though these individuals have major decisions to make and may not have the resources or the desire to pay advisors."

While emphasizing that there are no easy solutions to these problems, the report's authors recommended that defined contribution plan sponsors consider a variety of strategies to help middle-income workers prepare for retirement more effectively. These include implementing auto-enrollment, using target-date funds as default options, and limiting fund choices. In addition to providing benefits, employers can act as purchasing agents for financial products, and offer access to education and advice.

In addition, employers could allow older employees to approach retirement as a gradual process, by moving to a flexible or part-time schedule in the latter years of their career. This would enable older workers to delay claiming Social Security, and weigh their options for the distribution of their retirement savings, which may include partial annuitization. ■

## permanent life insurance: offering benefits at any age

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estate taxes. Asset transfers to beneficiaries other than a spouse that exceed the **applicable exclusion amount** (\$5.25 million in 2013) may be subject to substantial estate tax, and insurance policy proceeds may be used to help pay these taxes. With proper preparation, you and your loved ones can help ensure that family heirlooms and property remain in the family and will not have to be sold quickly to pay estate taxes.

### How It Works

Provided that policy premiums are paid on time, a permanent life insurance policy can provide coverage for your entire lifetime. In fact, for certain policies, benefits include premiums that may never increase, benefits that never decrease, and a policy that cannot be canceled regardless of changes in your health.

Permanent life insurance policies offer death benefits that are free of income tax, as well as a tax-deferred cash value component. This means that a portion of premium payments to a permanent life insurance policy is used to build cash value, which can be borrowed, often on a tax free basis, for a variety of uses. Retirees

may use cash values to help cover educational expenses for younger generations, supplement retirement income, pay for travel, start a new business venture, or even purchase a second home.



It is important to note that distributions of cash value will have an impact on the policy. Distributions under a policy (including cash dividends and partial/full surrenders) are not subject to taxation up to the amount paid into the policy (cost basis). However, if the policy is a Modified Endowment Contract,

policy loans and/or distributions are taxable to the extent of gain and are subject to a 10% tax penalty. Access to cash values through borrowing or partial surrenders can reduce the policy's cash value and death benefit, can increase the chance the policy will lapse, and may result in a tax liability if the policy terminates before the death of the insured.

Many permanent life insurance policies also offer non-guaranteed dividend payments, which can be paid when the insuring company's expenses are lower than originally projected. Dividends can be used for a variety of purposes, including as a source of income or as a means to buy additional coverage, or to cover existing premium payments.

Permanent life insurance policies may offer a variety of benefits to you and your family throughout your lifetime. In addition to the knowledge that your designated beneficiary (ies) will receive the proceeds of the policy upon your death, you may also have the ability to access the cash values before that time. A permanent life insurance policy can be an important component of an ongoing, long-term financial strategy at any age. ■

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