www.efallc.com

evergreen
FINANCIAL ASSOCIATES
Third Quarter 2014

Guide...Protect...Preserve

Figuring Out How Much You Need In Retirement

At some point, almost everyone asks this question: How much do I have to save for retirement? Of course, there's no easy answer, but what may be even more disconcerting is the possibility that this may be the wrong question. It might be more beneficial to figure out how much income you will need annually in retirement than it is to pinpoint the amount you should try to set aside.

Start by Changing Your Mindset

You are who you are and that isn't likely to shift 180 degrees in retirement. Sure, you'll have more time to travel or pursue other activities, but you'll still be the same person with the same basic values, interests, and inclinations. Armed with this knowledge, you may want to shift from the notion of accumulating a specific amount for your retirement to figuring out what your expenses will be on a year-to-year basis.

Once you understand your financial liabilities, you'll be better prepared to devise a retirement saving strategy and at the same time eliminate fears that your money won't last long enough. Targeting a "magic number" for the future can be stressful. According to a recent survey, 82% of the respondents who have dependents and are age 44 through 49 were more worried about outliving their money than they were about death. Concentrating more on your personal needs can help alleviate concerns.

Begin this process by calculating your true retirement liability. Rather than asking "How much money do I need to retire?" try to determine "How much money in future dollars will I need each year during retirement?"

Calculate Your Expected Expenses

Where and how will you spend most of your money during retirement? Everyone's situation is different, but recent statistics from the Bureau of Labor Statistics indicate the typical results, some of which you may find surprising. Here are a few findings to ponder about retirees age 65 and over:

- They spend 34.2% of their money on housing. If you're already an empty nester, or expect to be one in the near future, you might look to downsize soon to take advantage of the equity built up in your home. In any event, consider working out a plan that lets you live more economically than you could when you were in the middle of a career and raising kids.
- They spend 16% of their money on transportation. And it's not paying for gasoline that hurts the wallet most; the bulk of these expenditures come from buying new cars. Instead of succumbing to the temptation to rush out and get a new vehicle every three years, consider keeping your existing car or buying a pre-owned model.
- They spend only 0.5% of their

(Continued on page 4)

Be An Elephant And Downplay Talk Of Bulls And Bears

A funny thing happened during the recent run-up in the stock market: People began to forget what happened in 2008. That's when the market started a downward spiral that lasted almost two years before bottoming out and beginning the long crawl back.

Now that about five years have gone by, many experts are predicting that the recent bull market will continue, perhaps for several more years. On the other side of the coin, some naysayers are expecting a market correction, maybe one of significant proportions.

No one knows for sure what will happen next. But it helps to look back and remember both the good and the bad.

During the last financial crisis, the Standard & Poor's 500 Index took a walloping, declining by about 37%. But then the S&P 500 rebounded and was up about 25% annualized over the five-year period. The hopelessness and panic that gripped investors have given way to euphoria in some circles.

It's far better to keep an even keel. If you've been afraid to reenter the market, be aware that equities historically have proven to be a sound investment. Yet that's no reason to go overboard and sink every dollar you own into the market. Whether the bulls are running wild or the bears are growling, be more like an elephant: Remember the past.

With our assistance, you can chart a sensible path for the future.

Mary Jane Callaghan & Mitch Glicksman

What To Do After Your Bucket List

You hear a lot about how much money you should save to live the lifestyle you desire when you retire. But equally important, and maybe even more so, is the question of how you are going to live in retirement.

After you have checked off all of the items on your bucket list and taken all of the trips you can afford, how do you spend the rest of your time (which now is all leisure)? This happens to be a question some people overlook as they enter their retirement years, but it is critically important for pre-retirees to consider.

People are living longer these days, so you may be looking at a retirement period of 20 years, or even more. You will have a lot of leisure time. A long retirement period can take you into the advanced elderly years, a time when many retirees are physically unable to work part-time, serve as volunteers, or even keep up with their gardening. And watching TV, playing computer games, and emailing your friends and family can get boring when you do it all day—for a few years.

So, what can you do?

One answer is to move to a retirement community. This definitely could be a consideration when planning your retirement. Retirement communities are designed to alleviate a boring (and life-shortening) lifestyle. Found throughout the United States, they often are located close to medical facilities—another important consideration because you probably will require increased medical attention as you grow older.

Many people entering their retirement years want to remain near family members. So if you're considering a retirement community, you may want to look somewhere that's close to much of your family.

Six other things you may want to consider if you choose to move to a retirement community:

1. Facilities. What does the community offer in addition to the omnipresent community clubhouse? Many communities feature activities and facilities designed especially for retirees, such as swimming pools, tennis courts, bocce courts, arts and crafts courses, photography clubs, home-state clubs, woodworking shops, computer rooms, card rooms, bingo games, movies, little theater, community dinners, and special events. Some even provide golf courses.

2. Fees and taxes. Make sure you are financially comfortable with homeowner association fees, insurance rates, and property taxes (if applicable).

3. Resale value. What is the real estate sales history of the community? Have home and condo valuations generally trended upward during the years of its existence? Have home and condo prices recovered somewhat from the real estate bust of a few years ago?

4. Shopping. Is the community located near stores and shopping centers?

5. Restaurants. A lot of retirees like to eat out as frequently as they can afford. Are good restaurants conveniently located? Do many of these restaurants offer "early bird" menus at a discount?

6. Transportation. Some senior citizens may choose to give up their drivers' licenses as they enter the upper years of old age. Having public transportation available could be an important consideration.

And finally, what about the question of how much money you should save for your retirement? A better question may be: How much will you need to pay your retirement expenses each month? We can help you with that answer. And we can help you plan the retirement lifestyle choices that best suit you. ●

Five Financial Vows For Newlyweds

Are you, or is one of your children, tying the knot? For any couple heading to the altar, financial matters can emerge as a major challenge. As much as you may love each other, there's no guarantee you'll be on the same page about money. In fact, it's not unusual for a "spender" and "saver" to join together in holy matrimony, only to find out they're at odds over finances once the honeymoon is over.

A better alternative may be to address financial issues before you wed. Consider these five practical suggestions:

1. Conduct an inventory. It may help to start by figuring out who has what and how much. List the assets you have coming into the marriage and get your partner do the same. But don't forget the other side of the ledger. Be sure to take stock of each one's outstanding debts and other liabilities.

2. Get organized. Once you've finished the inventory, put your financial affairs in order. One big decision is whether you want to keep your individual assets separate or combine them in joint accounts. This is a personal preference, but younger couples tend to pool their resources while older couples, especially those embarking on a second or third marriage, are more likely to maintain separation, at least initially. You also will need to consider the beneficiary designations on retirement accounts and other holdings. For example, will you leave things to each other?

3. Set your priorities. Developing a long-range financial plan actually can help your marriage succeed. Do you want to have kids? Will you pay for their college? What about owning a home? It's not too early for newlyweds in their 20s or 30s to establish savings goals. Also, don't ignore the need to set aside funds for retirement, even if it's decades away. If you have other objectives—owning a vacation home,

Dispel These 7 Popular Myths About Retirement

Retirement is changing. People are living longer, and many stay healthy and vital into their 80s and 90s. Working, at least part time, has become more commonplace. Yet with fewer and fewer corporate pensions to fall back on these days, the money to pay for a long life after work may not be there. And with change comes confusion and misperceptions about what really may happen during your retirement, however you define it.

Consider these seven common ideas that may prove overly optimistic—and then tweak your plans to make sure you don't fall short of your goals:

Myth #1: You'll have saved enough for retirement when you get there.

According to a 2014 survey by the Employee Benefits Research Institute (EBRI), an independent research firm, only 42% of current workers over age 55 say they've saved at least $100,000, while just 23% have set aside more than $250,000. The EBRI survey also indicated that just 18% of all workers were "very confident" they've saved enough for retirement. You easily could find yourself facing a shortfall.

Myth #2. You'll spend a lot less than you do now.

Some cash outlays, such as paying off the mortgage and sending the kids to college, no longer may apply. But what do you want your retirement to look like? If you've envisioned globe-trotting or indulging in expensive hobbies, you may find that will erode your nest egg more quickly than you expected. Unexpected expenses—high-priced dental work, say, or a down payment for a child's home—also can siphon away funds.

Myth #3. You'll save a lot of money when you downsize your home.

Moving to a smaller place probably will reduce maintenance costs and property taxes. But that doesn't mean you won't still have all the usual expenses associated with home ownership—just on a smaller scale—plus other possible fees that may apply if you've moved into an over-55 community. And if you've relocated to a ritzy neighborhood in a city or resort area, your expenses could go up.

Myth #4. You'll continue working past the normal retirement age.

You may want to stay on the job or shift to something else, but such plans don't always work out, and health problems also could pose obstacles. And if you're counting on job income to shore up your finances through many years of "retirement," not being able to do it—or deciding you're just not up to it—could leave a big hole in your retirement income.

Myth #5. You easily can get a part-time job if you need one.

When you retire from your full-time position, you might seek part-time employment, but those jobs may be harder to find, and to keep, than you imagine. You may be competing with youngsters who are more tech-savvy than you for jobs requiring computer skills. What's more, if you're living in an area with numerous other retirees, which is often the case, the competition can be fierce.

Myth #6. You can rely on Medicare for all your medical expenses.

Retirees often expect Medicare to pick up the entire cost of physician visits, hearing or eye exams, or the like, but that's simply not how the system works. In fact, Medicare covers only roughly half of such expenses, according to data recently provided by the Kaiser Family Foundation. And don't overlook the exorbitant costs of staying in a long-term care facility or paying for in-home nursing care. If you don't have a supplemental policy, Medicare might cover none of these expenses.

Myth #7. You can rely on Social Security for most of your income.

Different people have different ideas about Social Security. Some almost disregard those payments from the government, thinking they'll be too small to make any difference in funding retirement. Others, though, talk about Social Security like it's the be-all, end-all. It's neither. The fact is, Social Security can be genuinely helpful, often covering some of your essential expenses. But for most people it's not nearly enough to live on. The Social Security Administration says the average monthly benefit in 2014 is $1,294, which works out to $15,528 a year. That's why it's vital to take steps to supplement Social Security with income from investments, employer retirement plans, IRAs, and other sources.

There's one more myth we would like to expose—that it's too late to change your destiny. Reexamine your basic assumptions about your retirement and then make a reasonable retirement savings plan based on your needs and realistic objectives. ●

for instance—factor those into the mix.

4. Don't forget insurance. While your main focus is likely to be on meeting your goals, you can't assume everything will go smoothly, and an illness or job loss could be a major setback and put pressure on your marriage. One way to hedge against future problems is to obtain health insurance, life insurance, disability income insurance, and long-term care insurance.

5. Hope for the best but plan for the worst. Almost half of marriages end in divorce. It may be difficult to broach the topic, but you may want to consider using a prenuptial agreement, especially if you're the one bringing most of the assets into the marriage or if you're getting married late in life. "Prenups" no longer carry the stigma they once did, and having a clear-cut agreement about what happens if you split up actually could help keep you together.

Finally, remember that we're here to provide whatever financial assistance you may need. ●

Life Insurance Is Triple Tax Winner

We're not saying that life insurance is the greatest thing since sliced bread. But this financial planning concept—which seemingly has been around forever, perhaps since before sliced bread—does offer significant tax benefits. In fact, permanent life insurance is a three-way tax winner.

For simplicity, this article will focus on whole life, one of several kinds of life insurance. Typically, a whole life policy remains in force as long as you continue to pay the premiums. Meanwhile, the policy builds a "cash value" you can borrow against. You also could surrender the policy and receive its "surrender value." If you keep paying premiums, or if the policy is paid up, your beneficiaries will receive a death benefit when you die. That money, which usually is available a short time after the death, can help sustain a family during a time of financial need.

What about federal income taxes? Although Congress has chipped away at many traditional tax shelters, the main benefits of life insurance remain intact. Generally, it provides at least three significant tax breaks:

- There's no income tax when you acquire the policy.
- There's no income tax on the cash value building within the policy.
- There's no income tax when the death benefit is paid to beneficiaries.

That makes life insurance completely exempt from income tax. This generous tax treatment is especially attractive to upper-income taxpayers. Due to recent tax law changes, the top income tax rate is now 39.6%, and you might have to pay an extra 3.8% Medicare surtax on a portion of your investment earnings. When you add the surtax to the top tax rate, you could be paying tax on some of your income at a 43.4% rate, not even counting state income taxes. It's not unusual for those in high-tax states to exceed an overall 50% mark.

Note; If premiums aren't paid until the insured's death and the policy is surrendered or lapses, the amount previously borrowed is subject to income tax to the extent it exceeds basis.

What about federal estate tax? The proceeds will be included in your taxable estate if you own the policy or otherwise posses any "incidents of ownership," such as the right to change beneficiaries. But you can avoid that problem easily by transferring ownership of the policy to a life insurance trust. And even if death benefit proceeds are subject to estate tax, a generous $5.34-million exemption in 2014 can cover the liability.

What will it cost? This varies widely, based on factors such as the amount of coverage, your age, medical condition, and family health history. But you should be able to find a policy with a reputable insurer that is affordable for your situation.

Of course, from an investment standpoint, you might achieve a better rate of return with other options. Nevertheless, life insurance, aided by the triple tax shelter, can be a productive part of your overall financial plan. ●

How Much For Retirement?

(Continued from page 1)

money on education. Just because you're retired doesn't mean you should stop learning. Going back to school on a part-time basis—even if you do it online—could improve your lifestyle and open up new opportunities.

This is just the tip of the iceberg. Also consider health care—often a big expense—food, entertainment, and retirement travel. No one knows better than you do where your money will go.

4 Steps to Prepare

It can be challenging to change the way you think about retirement planning, but here are four steps that may help:

1. Make retirement planning a top priority. It's been said that any plan is better than no plan at all. You're one step ahead of the game if you've already started to focus on the challenges ahead. Ignoring it could be the worst option.

2. Seek the counsel of others. We would be glad to provide whatever assistance you need in meeting your goals. It is often helpful if an impartial voice can provide guidance on emotional topics such as selling the family home or bypassing luxuries.

3. Create a range of estimates for what you will spend. Even if you knew with certainty how long you would live and how much you would spend, it still would be extremely difficult, if not impossible, to estimate their retirement liability exactly. Make reasonable estimates within a range and review the analysis annually.

4. Start sooner rather than later. Regardless of your age, it's not too early to begin planning. Your circumstances could change, so you'll need to build some flexibility into the plan. That's far easier at an early age than it is when retirement is knocking on the door. ●