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5 Steps To Realize An Early Retirement Dream

Have you dreamed about getting out of the rat race and retiring early? You could live a simpler life, pursue personal passions such as travel or recreation, and reduce your stress level. But you might think an early retirement is just for multimillionaires and out of your reach.

Think again. Early retirement doesn't have to be a pipe dream. It could become a reality through some diligent planning and dedication to your goals. These five steps may push you along the way:

Step 1: Plan on spending less. Don't give up if retirement planning calculators show you'll need much more than what you believe you conceivably can set aside. You can put a sizable dent in the "nut" you have to crack by significantly reducing your spending habits.

Remember that you won't be incurring commuting costs and a high-priced wardrobe for your job once you leave work. Furthermore, if you're hoping to travel around the world, you may be able to do it on a tighter budget than you thought. And simplifying your lifestyle—for example, maintaining just one car (or even none) instead of two—will provide savings.

Of course, life likely will throw you some curveballs, so be prepared for that, too. Build a cushion into your plan.

Step 2: Downsize your home. Part and parcel of the first step to early retirement is a reduction in housing costs. For most people, this is the single largest drain on savings. Do you really need that rambling colonial in the suburbs if your kids are grown and out of the house? This can be especially beneficial if the mortgage is paid off. You can sell the home at a sizable gain, move to a less expensive place, and pocket the difference.

Consider a retirement community if you're age 55 or older. If that's not the right fit, look for housing that's affordable but gives you the flexibility you want. For some early retirees, it's an apartment in a city with easy access to restaurants and stores.

Step 3: Secure adequate health insurance. One of those curveballs could be your health. Even if you're in reasonably good shape as you enter early retirement, there's no way to predict what will follow. And your retirement could last longer than you initially expected.

Medicare kicks in at age 65 and you can supplement it with another policy. Prior to that age, the Affordable Care Act (ACA) has made it easier for some people to retire early, but the future of the ACA, as currently written, is in jeopardy. Conduct in-depth research to find health insurance policies that provide the necessary coverage at a cost you can handle. Depending on your situation, you might opt for a high-deductible plan. In any event, you can't go without health insurance!

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The Best Places In The Country To Retire

"Go west, young man, go west" was an expression first used by John Babsone Lane Soule in the *Terre Haute (*Indiana*) Express* in 1851. It appealed to famed New York journalist Horace Greeley, who rephrased it in an editorial in the *New York Tribune* in 1865: "Go West, young man, and grow up with the country."

The country indeed has grown up in the past century and a half, and the new advice well could be, "Go south, old man [or woman], go south."

That's essentially what financial planner website WalletHub reported recently when it compared information about 150 metro areas and listed what it calls the best places in the country to retire. Topping the list was Orlando, FL, with Tampa, FL, coming in second. Florida cities took three of the top four spots with Miami picked as No. 4 best place to retire. Cape Coral came in seventh, giving the Sunshine State four of the top 10 rankings.

Scottsdale, AZ, was ranked third best and Sioux Falls, SD, fifth. Rounding out the top 10 were Las Vegas, NV, sixth, Atlanta, GA, eighth, Minneapolis, MN, ninth, and Los Angeles, CA, tenth.

Sioux Falls fifth? How did a far-flung area in the Snow Belt get such a lofty rating?

WalletHub statisticians used four sets of criteria in arriving at their conclusions: cost of living, recreational activities, quality of life, and health care availability.

Sioux Falls ranked No. 1 in health care and No. 19 in affordability.

By comparison, San Francisco, CA. – No. 11 – ranked No. 1 in activities, but came in as the 146th most expensive place to live in the U.S.

Mary Jane Callaghan & Mitch Glickman

Using RMDs To Buy Life Insurance

It's a fact of tax-deferred investing for retirement. Eventually—within a year of reaching the age of 70½—the Internal Revenue Service expects you to begin pulling your savings out of retirement accounts and paying income tax on your withdrawals. These "required minimum distributions" (RMDs) are mandated for 401(k)s and other employer-sponsored plans, as well as for traditional IRAs (but not Roth IRAs).

Yet while there's no way around taking these mandatory distributions, if you use the money to buy life insurance you may be able to provide substantial tax-free benefits to your family.

Although the money you contribute to tax-deferred retirement accounts can grow without current tax erosion, RMDs must begin by April 1 of the year after the year in which you turn 70½. Then you have to take an RMD by December 31 every year thereafter. These RMDs generally are taxed at ordinary income tax rates as high as 39.6%.

If you're still working full-time and don't own the company, you may be able to postpone withdrawals from a plan sponsored by that employer until retirement. But this exception doesn't apply to IRAs.

The amount of the RMD is based on life expectancy tables and the value of your accounts on the last day of the previous year. For example, if you're age 75, the value of all your accounts is $500,000, and your spouse, who is the sole beneficiary, isn't more than 10 years younger than you are, the RMD under the tables is $21,834.

The penalty for *not* taking RMDs is equal to 50% of the amount you should have withdrawn (or the difference between the required amount and any lesser amount you did withdraw). For instance, if you failed to take any distribution in the example above, the penalty is $10,917, plus regular income tax. In addition, taking an RMD can trigger other tax complications. You might be subject to the 3.8% "net investment income" (NII) tax.

But what if you were to use the money to buy life insurance? Suppose that, in our example, you use the RMD amount, after paying tax on the withdrawal, to acquire a life insurance policy with a death benefit of $500,000. Further suppose that you pay a total of $200,000 in premiums before you die. Your family still comes out ahead by $300,000, and none of the $500,000 in proceeds from the life insurance is subject to income tax.

Choose the policy carefully to reduce the risk that your family will have less money with life insurance than if you invested the premiums somewhere else.

You could sweeten the deal by transferring ownership of the policy to an irrevocable life insurance trust, thus removing the value of the life insurance proceeds from your taxable estate. That could save your family from federal estate tax as well. ●

IRS Adjusts Retirement Plan Limits

Every year, the Internal Revenue Service (IRS) adjusts the amounts you can contribute to employer retirement plans and IRAs, based on inflation indexing. For 2017, the limits are slightly higher in some cases, while others stay the same. Here's a rundown on the key limits for participants:

Limits that will change for 2017

Defined contribution plans – The limit on total annual additions to 401(k), profit-sharing plans, and other such vehicles is increased to $54,000 for 2017 (up from $53,000).

Defined benefit plans – The maximum size of the annual benefit for traditional pensions and related retirement plans increases to $215,000 for 2017 (up from $210,000).

Annual compensation – The maximum amount of compensation that can be taken into account for most employer retirement plan calculations increases to $270,000 (up from $265,000).

Deductible IRA contributions – Phase-outs in 2017 for deductible IRA contributions will reflect the following changes:

- For single filers participating in an employer plan, the phase-out range increases to between $62,000 and $72,000 for 2017 (up from $61,000 and $71,000).
- For an IRA contributor filing jointly who participates in an employer plan, the phase-out range increases to between $99,000 and $119,000 (up from $98,000 through $118,000).
- For an IRA contributor filing jointly whose spouse participates in an employer plan, the phase-out range increases to between $186,000 and $196,000 for 2017 (up from a range of $184,000 to $194,000).

Roth IRA contributions – For single filers, phase-outs for the ability to make contributions increase to a range of from $118,000 to $133,000 for 2017 (up from $117,000 to

5 Steps To Help Women Save More For Retirement

According to the latest statistics, women have made great strides in saving for retirement but still lag far behind their male counterparts. A new report by the National Institute on Retirement finds that men received $17,856 in median retirement income from pensions in 2010, compared to $12,000 that women got—33% less than men. The gender gap also extends to retirement plans such as 401(k)s. In 2014, women had 34% less than men in these accounts, with a median of $36,875 for men and $24,446 for women.

To compound the problem, women have longer life expectancies than men; this means they need more – not less – to live on during retirement. The Social Security Administration says women reaching age 65 today can expect to live, on average, until age 86.6, as opposed to age 84.3 for men.

But taking steps now could help women overcome these hurdles. Here are five to consider:

1. Map out a plan. Married women, in particular, may tend to leave retirement planning to the men in their lives, especially if they relied on their husbands as the primary breadwinner during child-raising years. But it's important for women to participate in their family's financial planning, so that they can help formulate goals and what it will take to reach them. For women on their own it can be all the more crucial to commit a plan to writing and do their best to stick to it.

For instance, project where you expect to be in 10, 15, or 20 years, and what your living situation will be then. Will you continue to live in a high-rent district in retirement? What is your health status? Do you expect to be on your own or with a spouse? The answers can shape your goals.

Finally, when you're finished, don't just stick the plan in a drawer and forget about it. Review it periodically and, when warranted, update it to reflect your changing needs.

2. Create a budget. If you haven't done so already, develop a budget for yourself as well as for your household. In particular, focus on ways you can save more and spend less. For instance, if you participate in an employer plan for flexible spending accounts, you can save on taxes while setting aside funds for health care and dependent care. Also, if you're a homeowner, you might prepay principal on your mortgage, a strategy that can reduce the amount of interest you pay and shorten the time it takes to retire a mortgage.

On the spending side, can you forego some luxuries? Can you reduce annual expenditures for your wardrobe and entertainment? Such cutbacks may free up more funds for retirement.

3. Don't ignore the risks. Even if you're fit as a fiddle right now, there is no guarantee you won't face serious health issues in retirement. Act now to ensure that you'll be protected from any catastrophe that could soak up your life's savings. For instance, you should be able to rely on adequate health insurance coverage through an employer or other resources. When you reach age 65, the qualifying age for Medicare, you probably will need to buy supplemental coverage to reduce your out-of-pocket costs.

Women, in particular, also may want to consider buying long-term care insurance to help cover the costs of nursing home care they may need one day. According to American Seniors Communities, there are seven times as many women as men in assisted care facilities.

4. Salt away more in tax-favored accounts. Don't pass up the opportunity to participate in a 401(k) or another kind of retirement plan at work. The tax law permits you to defer salary within generous limits, plus "catch-up contributions" are allowed when you're age 50 or older. Also be sure to contribute enough to qualify for the maximum matching contributions from your company.

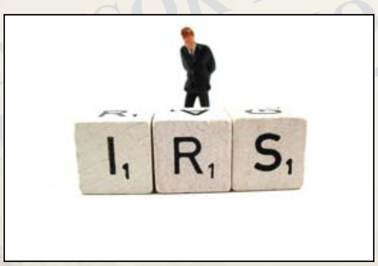
Money you put in traditional or Roth IRAs can complement employer-based retirement plans. A Roth IRA, which doesn't let you deduct contributions but does offer tax-free distributions during retirement, could be particularly helpful, especially if you expect to pay a higher tax rate in retirement than you did while working. "Spousal" IRAs can benefit nonworking wives.

5. Rely on a financial advisor. Having a retirement expert help guide your decisions can be just as helpful for women as it is for men. From working with you to develop an investment plan to helping you decide when to begin receiving Social Security benefits and how to manage required distributions from your retirement accounts, an advisor can be an essential partner in planning the kind of financial future you want. ●

$132,000). For joint filers, the phase-out range increases to between $186,000 and $196,000 for 2017 (up from $184,000 to $194,000 for 2016).

Limits that won't change in 2017

Elective deferrals – The deferral limit for those who participate in a 401(k), 403(b), most 457 plans, and the government's thrift savings plan remains at $18,000 for 2017. The limit for catch-up contributions to these plans for participants age 50 or over remains at $6,000.



SIMPLE plan deferrals – The limit on earnings deferrals to a SIMPLE plan remains at $12,500 for 2017. The limit for catch-up contributions for participants age 50 or over holds steady at $3,000.

Highly compensated employees – The dollar limit used to define highly compensated employees (HCEs) for employer plans stays at $120,000 for 2017.

IRA and Roth contributions – The maximum amount you can contribute to traditional and Roth IRAs stays at $5,500 for 2017. The $1,000 limit on catch-up contributions for participants 50 or over isn't subject to inflation indexing. ●

Tax Rewards For Charitable Trusts

Are you thinking of giving a large gift to charity? A charitable trust can help you satisfy your philanthropic goals, preserve wealth for your heirs, and collect tax breaks, all at the same time. One of the most popular of these is the charitable remainder trust, or CRT.

A CRT requires you to give up control over the assets that you transfer into the trust and it's irrevocable. There's no going back, so make sure this charitable vehicle suits your needs before you commit to it.

Typically, you will set up a CRT with a particular charity you want to support. The charity must be approved by the IRS as a tax-exempt entity. During its term, you (or another income beneficiary or beneficiaries that you specify) receive regular payouts. The CRT may last for terms of years or for your lifetime. Finally, when the trust ends, whatever is left—the remainder—goes to the charity.

There are three main tax advantages to this setup:

1. Regular income tax: You're entitled to a current tax deduction for the projected value of the remainder that will go to the charity at the end of the trust's term. Your tax adviser and charity officials can help determine the amount of your deduction.

2. Capital gains tax: If you transfer appreciated assets into the trust you won't owe any tax on the appreciation. And if the charity sells property from the trust and turns it into cash, you don't have to worry about capital gains tax then, either. But you pay income tax on the annual payments you receive.

3. Estate tax: When the remainder eventually goes to the charity at the end of the trust, those assets are removed from your taxable estate. So there aren't any estate tax concerns with a CRT.

Let's not forget that you'll be receiving annual income from the CRT. It can be structured in one of two ways, which must be determined when you set up the trust. You can't change your mind later. Here are the two ways:

- **Fixed annuity method:** The CRT pays out a fixed dollar amount each year. So even if trust earnings fall, you'll still receive the same amount of money.
- **Percentage of assets method:** Another version, which is more common, is to base the annual payment on a percentage of assets. For instance, you might arrange to receive 6% of the value of the trust assets each year. Accordingly, your annual 6% payments generally will provide larger payouts over time, assuming the assets go up in value, but the amounts are based on market conditions.

In any event, the IRS requires you to receive at least 5% of the value of the trust each year and the charity's remainder value must be at least 10% to preserve the tax breaks.

This is just a brief overview of CRTs. For more information about this rewarding tax planning technique, reach out to your advisers. ●

5 Steps To Realize

(Continued from page 1)

If you expect to be traveling extensively, include this in your health insurance considerations. For instance, you may decide to obtain temporary travel insurance, based on your destinations.

Step 4: Maximize your investments. Saving more for retirement—and that includes how you invest your funds—may enable you to call it quits early.

Of course, everyone's situation is different. Put together a diversified portfolio that is aimed at your objectives while taking into account your personal risk tolerance. Frequently, your assets will involve a mix of stocks, bonds, mutual funds, and perhaps other investments such as real estate and exchange-traded funds (ETFs).

International investments, too, may be part of that mix, though such holdings bring special risks, including the potential that economic and political turmoil and currency fluctuations could affect the value of your investments.

Step 5: Count on taxes. Finally, don't dismiss taxes as a factor. Even if tax rates fall soon, they could rise again, and taxes always will erode your retirement savings to some degree. One strategy that may help is to move to a state with lower state tax rates.

Cashing in stocks during your retirement will result in capital gains, currently taxed at favorable rates, while distributions from retirement plans such as 401(k)s and traditional IRAs are taxed at higher rates for ordinary income. Also, payouts you take before age 59½ may be hit with a 10% tax penalty. (Roth IRA distributions can be tax-free, but you still may be penalized if you withdraw funds too early.) Remember that you must begin taking required minimum distributions (RMDs) from most retirement plans and traditional IRAs after age 70½. In addition, Social Security benefits may be subject to tax.

These and other steps can help take you closer to your dream of early retirement. ●

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