Foresters Financial

Insights

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5 commonly overlooked questions about retirement income planning

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Before you reach retirement age, you need to start thinking about how you'll generate income in retirement. How much savings will you need? How much can you safely withdraw each year?

While many people make these basic considerations, they often overlook some of the more nuanced—yet critical—concerns of retirement income generation that can have dramatic effects on their financial security both early in retirement and decades down the road. What if you have a major health issue and face thousands of dollars in healthcare bills? What if the markets underperform and your savings are dropping more than expected?

That's why getting professional guidance from a trusted financial adviser is so important. Unlike a computer-generated financial plan ("robo-advisers," as they're sometimes called) a human adviser can guide you through many of the complexities of retirement income planning and help you address issues that are unique and personal to you and your loved ones. Every person has different concerns—and an adviser can help you uncover those concerns and address them in your plan.

Here are five commonly overlooked retirement income planning concerns that your Foresters Financial Representative can help you with:

1. How will taxes affect your retirement income?

Many soon-to-be retirees overlook the impact taxes will have on their income. You will owe ordinary income tax on any distributions you take from tax-deductible retirement accounts such as your traditional individual retirement account (IRA), 401(k) or 403(b), as well as capital gains taxes when you sell appreciated investments in your taxable investment accounts. If you claim Social Security benefits before full retirement age and are still working, your benefit amount will be reduced by 50 percent for every dollar you earn above $15,720 (in 2017). In essence, taxes and Social Security penalties can take a significant bite out of your income, if you're not careful. And you may discover you may need to make larger distributions than you thought to cover the consequences.

2. How do you allocate assets effectively for retirement?

Inflation should be a main consideration during retirement. Inflation has averaged about 3 percent per year and could deteriorate your savings, income and assets if you are not keeping pace. Remember, retirement can last 20, 30, even 40 years.

Instead, your Representative can help you set up a "bucket approach" to investing and taking income that helps you to have the savings you will need in the short-term, while promoting longer-term growth for future income. For example, savings you expect to need in the next few years for, say, healthcare costs or travel plans should be put in low-risk investments, so you know that money will be there when you need it. Money you're saving for the future—say things you expect to need in 10 years or further out—can be invested more aggressively, so that it has the ability to grow and potentially even produce investment returns far greater than inflation.

3. How can you make sure you're ready for unexpected expenses?

Even the best-laid plans can go south. Imagine if you suffered a major health event and suddenly owed thousands of dollars in unplanned bills? It's important to consider. Making sure you have good supplemental Medicare coverage and perhaps long-term care insurance can shield you against some of the financial risks associated with retirement income planning.

4. How much guaranteed[1] income do you need?

Retirement income planning is very much a longevity game. How much you can withdraw each year depends on how long you will live—and nobody knows that for sure. For this reason, many people convert a portion of their retirement savings into a guaranteed[1] income stream. Especially now that traditional pensions are no longer very common, annuitizing some of your savings can be a reliable way to ensure you have enough income to last throughout your lifetime.

5. How do you claim Social Security and defined-benefit pension benefits most effectively?

For many people, figuring out the right age to claim Social Security retirement benefits is essential—and, if you're married, it's even more important because your spouse could be relying on that benefit over his or her lifetime as well. Too many people start taking benefits at the earliest possible age (62 currently) but they miss out on the potential to get a benefit that's about 50 percent larger by just waiting until full retirement age (66 currently). The monthly benefit would be even larger by waiting until age 70 to claim it.

Claiming benefits from a defined benefits pension can also be challenging. Many pensions offer their beneficiaries a number of payout options, whether a lump-sum or "single life" and "joint survivor." If you have a pension, choosing the wrong payout option can mean the difference of tens of thousands of dollars over your retirement.

Foresters Financial Representatives have access to a program called TRAK that helps soon-to-be retirees evaluate state pensions, as well as some private company pensions and figure out the best payout option based on your personal situation.

Your Foresters Financial Representative has access to resources and tools to help you plan your retirement, give them a call today.

2017 Retirement Contribution Limits

401(k), 403(b) and most 457 Plans

☐ $18,000 is the 2017 elective deferral (contribution) for employees.

☐ $6,000 is the additional catch-up amount allowed for individuals age 50 and over.

Individual Retirement Accounts (IRAs)

☐ $5,500 is the 2017 annual contribution limit (there are no income limits for contributing to a Traditional IRA, but tax deductibility is a separate issue).

☐ $1,000 is the additional catch-up amount allowed for individuals age 50 and over.

SIMPLE IRA for Small Businesses

☐ $12,500 is the 2017 contribution limit.

☐ $3,000 is the additional catch-up contribution amount allowed for individuals age 50 and over, and remains the same.

Roth IRA Contribution Limit

☐ $5,500 in 2017 and $1,000 additional catch-up for those age 50 and over. You can contribute to both a traditional as well as a Roth IRA (at the same time) as long as the aggregate contribution does not exceed the $5,500 plus $1,000 if over age 50. There are additional rules for IRAs, so please speak with your tax adviser before making adjustments to your retirement contributions.[2]

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[1] All guarantees are subject to the financial strength and claim-paying ability of Foresters Life Insurance and Annuity Company.

[2] Neither Foresters Financial Services, Inc. nor any of its affiliates provide legal, tax or estate planning services. Should you require such services, you should consult a legal, tax or estate planning professional.

Budgeting to save and invest

People have many excuses as to why it's difficult to save money. On an economic level, rising food, fuel and healthcare costs have contributed to lower savings rates nationwide. On a personal level, you may think, "I'll start saving after I get a raise," or, "I'll be able to save once I pay off my student loans." However, it's easier to make excuses than to acknowledge that there will always be some financial barrier to saving money, no matter what your stage in life.

Saving money for emergencies or investment purposes, begins with having a detailed budget of your income and expenses. This is critical for adults who want to achieve their financial goals, but has also become increasingly important for many parents who seek to help their children to understand the fundamentals of budgeting at an early age so that saving and investing will be easier later on.

The need for savings

It's important to realize that savings are a necessity, along with food, shelter and clothing. Every household should have a cushion of savings in place—generally enough to cover three-to-six months worth of expenses—in case of an emergency or a sudden loss of income. In addition to savings, it's also a good idea to have life insurance in place as well as investments for those long-term life goals, such as funding a college education, buying a home and building a nest egg for retirement.

Budget your savings

To help you begin saving for your future goals, start by writing down your expenditures for one month. Make sure to include every purchase, no matter how small it might seem. Once you write down your expenses, sort them according to the categories listed on the worksheet below. This way, you can see exactly where your money is going, and recognize where you can make adjustments to your budget.

At the end of the month, tally up all of your expenses and subtract them from your income. Even if your expenses don't exceed your income that doesn't necessarily mean your buying habits are under control. Your monthly budget should also include allocations for savings and investments. How much depends on your needs and goals, but many experts suggest setting aside at least 10 percent of your income to these categories.

Take the first step

Balancing your monthly budget is a prerequisite to any sound financial strategy, and it requires strong personal discipline. We encourage you to work with your Foresters Financial Representative who can go over your Monthly Budget with you and help you find ways to reach your long-term financial goals.

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The Great Debate: Permanent Life Insurance, or "Buy Term and Invest the Difference"

The debate has raged for years: Should you buy a more expensive permanent life insurance policy that has an investment component and has potential to build cash value, or buy a less expensive term life insurance policy and invest the difference?

The sad truth is—in reality, most clients rarely "invest the difference" but rather "spend the difference" because they either lack the discipline necessary to save, or because unforeseen life emergencies simply get in the way.

Another way to illustrate this point is the well known analogy of seeing term insurance as "renting" and a permanent policy as "owning." When you rent a home and your lease expires, you have built up no equity much like a term policy, and then the landlord raises your rent.

Permanent life insurance however builds cash value with every premium payment in much the same way that a homeowner builds equity with every mortgage payment, and your mortgage payment will never increase.

So if permanent insurance is the better long-term solution, which type of policy should you choose? There are a dizzying array of choices—including whole life, universal life, and variants of each of those policies. However, none effectively combine the benefits of both.

That's why Foresters Financial Services, Inc. designed a specialized life insurance policy called: ISP Choice®. ISP Choice is a Variable Whole Life Insurance policy with a choice of features and benefits that permit you to customize a policy that works best for you. You can select from a variety of investment options to meet your financial objectives and risk profile. You can also select from four different premium payment options to fit your budget. It's all about choices. Call your Foresters Financial Representative to discuss your life insurance needs.

Advantages of ISP Choice

Permanent Life Insurance Protection. The Death Benefit is guaranteed.[1] As long as the policy remains in-force when the insured dies, your beneficiary(ies) will receive the full benefit purchased. You also have the option to increase the death benefit without having to prove additional insurability.

Builds Tax-Deferred Cash Value. We offer nine professionally managed Subaccounts that invests in a portfolio of stocks and/or bonds, including a Fixed Account with a guaranteed interest rate. This allows you to diversify your cash value among different asset classes and investment styles. You can change your investment options within ISP Choice tax-free and without a fee. In addition, your investments within ISP Choice are tax-deferred until withdrawn. Please note that investment returns and principal value may flucuate and the underlying investment options are subject to the same risks as the stocks and bonds in which the investment options invest.

ISP Choice premiums will never increase—guaranteed.[1] You know what your insurance premium will be each year, which provides the built-in discipline of saving and investing money with four flexible payment options from which to choose. Even if you develop a serious medical problem, you're covered for life, with no increase in premium, guaranteed.

Tax-Free Death Benefits. Should the unthinkable occur, the death benefit your beneficiary receives is income-tax free—and potentially free of federal estate tax.

Speak with your Foresters Financial Representative and learn how a life insurance policy from **Foresters Life Insurance and Annuity Company** may be right for you. Your Foresters Financial Representative can help you develop a retirement strategy to help you achieve your long-term financial goals.

[1] All guarantees are subject to the financial strength and claims-paying ability of Foresters Life Insurance and Annuity Company, which makes no guarantees with respect to the investment return or principal value of the underlying subaccounts.

The ISP Choice policy is offered by Foresters Life Insurance and Annuity Company and distributed by Foresters Financial Services, Inc.; each is a wholly owned subsidiary of Foresters Financial Holding Company, Inc.

All insurance policies, including ISP Choice contain certain exclusions, limitations and other terms for keeping them in force. For complete costs and details, see your Foresters Financial Representative.

For more information about life insurance products from Foresters Life Insurance and Annuity Company, contact your Foresters Financial Representative, call 800-832-7783 or visit foresters.com. For variable insurance policies like ISP Choice, you can receive a free policy prospectus and underlying fund prospectus which contains important information about the life insurance policy including the risks, charges and expenses associated with the policy. In addition, the underlying prospectus has information about the available subaccounts and the investment objectives of the subaccounts' underlying funds. You should read the prospectus carefully before purchasing a policy. Policy availability and features may vary by state. The subaccounts' underlying funds are not bank deposits and are not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency.

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