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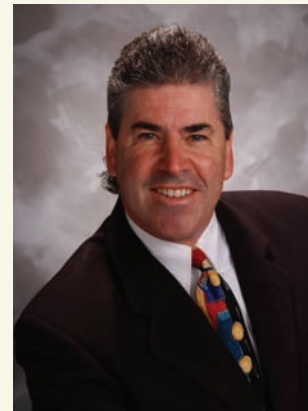


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Three Questions to Ask Yourself Before You Retire

As you near the end of the final lap of your working years and begin scanning the retirement horizon, you are likely to be seeking the information that you need to ensure a secure financial future. Here, we touch on three important questions that you should be asking yourself as you transition to retirement.

Do I understand all of my Social Security benefits options?

When do you want to begin receiving Social Security benefits? Apply at least three months ahead of the time that you wish to begin. You can receive a reduced benefit once you reach age 62. The full benefit shown on the Social Security estimate statement that you receive each year can be yours when you reach "normal retirement age" (no longer automatically age 65, but dependent upon your date of birth). Or do you want to wait until later, to increase the amount of your benefit? You may want to run the numbers. If you plan a "working retirement," find out if your benefits will be reduced, and by how much. You can make estimates of what benefits you can receive by using the benefits calculator at: www.socialsecurity.gov/OACT/ANYPIA.

Benefits aren't automatic. You can apply for benefits by filling out an application online (www.socialsecurity.gov), calling (800) 772-1213 or visiting your local Social Security office.

Do I have all my health insurance coverage in place?

There are three avenues to explore here:

First, Medicare. If you're already receiving Social Security benefits at age 65, your Medicare (Part A) starts automatically.

If you're not receiving Social Security, you should sign up for Medicare close to your 65th birthday, even if you have not reached your full retirement age or aren't yet ready to retire. Part A is called hospital insurance and covers most hospital stay costs, as well as some follow-up costs. Part B, for which you must enroll, pays some doctor and outpatient medical care costs. The rules for prescription drug coverage are complicated, so you will want to familiarize yourself with them before you make any decisions. Plan providers, AARP and the Medicare website (www.medicare.gov) can offer guidance.

Second, Medigap (and other) policies. About two-thirds of all Medicare recipients age 65 or over buy this kind of supplemental private health insurance, designed to deal with some of the holes in Medicare coverage. Before buying Medigap, HMO or other managed care insurance, you'll need to do a thorough review of the kinds of policies available and their costs.

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Retirement “Facts” That May Be Fiction

There are enough books and other forms of guidance about retirement that one would expect to find all the advice necessary to secure a comfortable retirement. But not all of the advice and strategies necessarily will meet your needs.

What’s more, some “facts” about retirement and retirement planning that have been conventional wisdom for many years could be worth challenging today. Here are three of them:

Fact #1: You’ll need 60% to 80% of the income earned in your working years to live comfortably in retirement.

These figures pop up frequently and are based upon the assumption that certain job-related (and other) expenses will disappear once retirement begins.

Is it logical to assume that you can live happily ever after on less money than you earned in your working years? Do you really want to live on less than what you are earning currently?

The answer to those questions is “no” if, for example, you expect to travel, pursue expensive hobbies or provide financial assistance to your children or grandchildren. And, unfortunately, illness or just advanced age may mean huge medical bills that might not be reimbursed completely by insurance. On the other hand, if at retirement you no longer have a mortgage or need to pay college expenses, you could potentially need less than 60% to 80% of your income.

Bottom line: Analyze your individual situation to determine how much income you’ll need during your retirement years.

Fact #2: Money coming from your tax-sheltered retirement plans is likely to be taxed at rates less than those at which you were taxed during your working years.

You make contributions to a 401(k), IRA or other retirement plan with pretax dollars. But you’ll begin paying tax when

you take your money out—generally at ordinary income tax rates.

Today, for most middle- and upper-middle-income taxpayers, tax rates are likely to fall in the 25% to 30% range, significantly lower than in decades past. Those numbers aren’t likely to drop radically after retirement, especially if you continue to work. And, of course, with historically low income tax rates, it’s reasonable to assume that the only direction that rates are likely to go in the coming years is up.

When trying to figure out what you will net after tax from a distribution from your retirement plan, it’s probably a good idea to assume that the money will be taxed at the top tax rate you’re currently paying.

Fact #3: Retirees should switch from stocks to fixed-income investments, such as CDs and bonds.

This statement is too generalized to apply in all circumstances.

As we were recently reminded, the stock market can be volatile. Yet switching from stocks to bonds or cash investments is an oversimplified approach to reducing risk. For one thing, bonds can have their bad years, as well. A strategy that does not produce an investment return that exceeds inflation is a losing one.

The best approach is an individualized one, tailoring your portfolio to your tolerance for the ups and downs of the markets, and adopting techniques that handle risk in an intelligent manner, reducing uncertainty as much as possible, while seeking opportunities that will help your portfolio grow.

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Third, retiree health insurance.

Find out if you can obtain retiree health insurance from your or your spouse’s company or union. You may find that the cost is less than that for a Medigap policy and provides more benefits. Make sure that you read the policy’s fine print. Especially important: Will premiums rise with inflation? If you are a veteran, find out if you are entitled to medical or prescription drug coverage from the government.

Do I know how I want to manage my company retirement plan payout?

Your 401(k) or other qualified retirement plan may offer several kinds of distribution choices. One option may be to receive your benefits as periodic payments (an annuity). For pension plans there are choices within choices: Your payments might be fixed or variable, or paid out over the lifetime of you and/or your spouse.

Or you may be entitled to receive a lump sum payout of your account balance. In that case you will need to make a decision as to whether you should: (1) take the money in hand, pay tax on it and invest what’s left; or (2) arrange to roll over all or part of your payout into an IRA, avoiding all tax as long as the money remains there. At age 70½ you are required to begin making withdrawals. (This rule has been suspended for 2009 only.)

If you are planning an IRA rollover, tread carefully, for there may be tax traps. For example, arrange for a direct rollover of your account from the company plan to a Rollover IRA. If you don’t, your employer is required by law to withhold 20% for income taxes.

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Social Security Benefits: Part of the Plan

Although Social Security benefits aren’t likely to make up a sizable part of your retirement income, your planning wouldn’t be complete without getting a good grasp on how much you’ll be receiving and, if you plan to work part-time after retirement, the impact of your earnings on your benefits.

Full benefits? When? It depends.

Many people continue to believe mistakenly that they can start receiving full Social Security benefits at age 65. That’s no longer true. Because of longer life expectancies, the Social Security law was changed in 1983 to increase the full retirement age in gradual steps.

Example: If you were born in 1938, full benefits are available at age 65 and two months. Then normal retirement age for those born between 1938 and 1942 rises by two months for each year of that time frame. For those born between 1943 and 1954, full benefits are available at age 66. Starting for those born in 1955, the two-months-a-year schedule is back in place until birth year 1960 and thereafter, when normal retirement age will freeze at age 67.

Receiving benefits early

You can begin receiving Social Security benefits as early as age 62. If you do begin receiving benefits early, they will be reduced permanently based upon the number of months that you receive checks before you reach full retirement age.

Example: If your full retirement age is 66, and you retire at age 62, there is about a 25% reduction in your benefits. As a general rule, early retirement will give you about the same total Social Security benefits over your lifetime as retirement at the normal age, but in smaller amounts so as to take into account the longer period during which you will receive them.

Starting benefits after normal retirement age

Social Security benefits are increased by a certain percentage if you choose to delay receiving them. These increases will be added in automatically from the time that you reach your full retirement age until you start taking your benefits, or until you reach age 70. The percentage varies depending on your year of birth.

Example: If you were born in 1943 or later, 8% per year (two-thirds of 1% per month) will be added to your benefit for each year that you delay signing up for Social Security beyond your full retirement age. If you decide to delay your retirement, the Social Security Administration strongly urges you to sign up for Medicare at age 65. In some circumstances, medical insurance costs more if you delay applying for it.

Working while collecting benefits

You may continue to work and still receive retirement benefits. Your earnings in or after the month that you reach your full retirement age will not affect your Social Security benefits. However, your benefits will be reduced if your earnings exceed certain limits for the months in the calendar year before you reach normal retirement age.

Example: In 2009, if you’re under full retirement age, \$1 in benefits will be deducted for each \$2 in earnings that you have above the annual limit of \$14,160. In the year that you reach your full retirement age, your benefits will be reduced \$1 for every \$3 that you earn over a different annual limit, \$37,680 in 2009, until the month that you reach full retirement age. Then your earnings will no longer affect the amount of your monthly benefits, no matter how much you earn. The annual limits increase each year as average wages increase.

The question of tax

About 20% of the people who get Social Security have to pay federal income tax on a portion of their benefits (up to a maximum of 50%). The calculation is complicated but goes like this: First, you add one-half of your benefits and your other income and compare it to a base level—\$32,000 for married couples filing a joint return, \$25,000 for singles. (Generally, “other income” is defined as adjusted gross income as reported to the IRS plus tax-exempt interest.) The taxable portion of your benefits is either one-half of your benefits or one-half of the “excess” over the base level, whichever is less. That amount is then taxed at your marginal tax rate.

Read your statement

Each year—usually about three months before your birthday—you receive a Social Security Statement that provides a record of your earnings, estimates of your Social Security benefits for early retirement, full retirement and retirement at age 70. It also provides an estimate of the disability benefits that you could receive if you become severely disabled before you’re eligible for full retirement, as well as estimates of the amount of benefits paid to your spouse and other eligible family members as a result of your retirement, disability or death.

The Social Security Statement can be a valuable tool to help you in planning for retirement. It can serve another purpose, as well. Because the statement includes a full record of when you contributed to Social Security, as well as the amounts that you contributed, you have an opportunity to spot and correct any inaccuracies prior to the time that you want to begin receiving benefits.

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