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Year-End Pension Legislation Provides Relief from RMDs

On December 23rd, President Bush approved new legislation providing limited relief from minimum distribution and pension funding requirements. The new law, the Worker, Retiree, and Employer Recovery Act of 2008, was enacted to alleviate some of the adverse effects the recent financial downturn has had on retirement plans and retirement plan participants.

Relief from 2009 Required Minimum Distributions

If you own a retirement plan account, such as a 401(k) or Individual Retirement Account (IRA), the IRS mandates that you take annual **required minimum distributions (RMDs)** upon attaining age 70½. If you fail to withdraw at least the minimum amount, the IRS may impose a 50% penalty each year on the dollar amount that you failed to withdraw. Required minimum distributions are calculated according to the value of the account as of the last day of the previous year and the age of the participant or beneficiary.

As a result of the recent economic downturn, many plan asset values have declined significantly in the last year. Recognizing that many participants and beneficiaries will be required to take required minimum distributions from plans and IRAs with significantly reduced assets, the Worker, Retiree, and Employer Recovery Act of 2008 waives the rules concerning RMDs for the 2009 year only.

First-time Distributions

Those who turn 70½ in a given year are permitted to postpone their first distribution until April 1st of the year following attainment of age 70½. The second RMD would also be due in the year following attainment of age 70½. It is important to note that the new law waives 2009 RMDs only; it does not waive any 2008 RMDs that an owner chooses to postpone until April 1, 2009. If an account owner fails to take the 2008 RMD by April 1, 2009, he or she may have to pay the penalty tax on any RMD amount not taken. The second distribution (the 2009 RMD) may be waived according to the new law.

An account owner who turns 70½ in 2009 would have been required, in the absence of the 2009 RMD waiver, to take the first RMD (the 2009 RMD)

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Taxes and Your Retirement Destination

How would you like to spend your golden years? Do you want an affordable condo on a golf course with extra room for visiting grandchildren? Would you like to remain in your community surrounded by old friends and family? Or would you perhaps prefer living close to new friends? Is easy access to certain medical facilities a priority?

Besides considering these issues, you might also research the effects of state tax structures on your projected retirement income as you decide where you will live during your retirement. Let's take a look at some key tax areas:

Earned and unearned income taxes. Do you plan to continue working during retirement? If so, it is important to realize that some states treat seniors like everyone else on their income tax rolls, some give seniors special tax breaks on earned income, and others do not tax earned income for any of their residents. Tax rates on unearned income may also vary from state to state. Be aware that several states tax former residents on **Individual**

Retirement Account (IRA) distributions. Thus, if you move, you may be required to file income tax returns in *two* states—and be prepared for unexpected local income taxes.

Pension income taxes. In many cases, a key to financial survival for seniors is income from military, government, and private pension plans. Some states exempt all pension income from taxation, while others exempt certain types and/or amounts of pension income.

Social Security benefit taxes. Some states do not tax Social Security benefits at all, while others follow Federal tax formulas for determining the tax on such benefits. Still others have developed their own formulas to determine the income tax on Social Security benefits.

Property taxes. This is another area where some states and localities offer advantages to seniors. Familiarize yourself with the relevant personal property tax laws, especially on cars and boats.

Sales taxes. Many states—and sometimes localities within each

state—tax clothing, gas, household goods, and sometimes even food and prescription drugs. When you consider your retirement budget, remember to add state and local sales taxes, if applicable, when you move to your retirement haven.

Estate taxes. While they do not *directly* affect your cost of living as a senior, do not overlook estate taxes when determining the feasibility of settling in one state over another. In some states, your spouse may be taxed on a portion of his or her inheritance that, in another state, would pass to him or her free of state estate tax. Changes in state estate tax codes should be monitored carefully as states seek ways to create financially friendly environments for seniors.

Since no *single* tax consideration will determine the most favorable environment for your retirement, analyze your *overall* financial situation and weigh your options. Then, you can choose a retirement destination that is most appropriate for your needs, allowing you to truly enjoy your golden years. ■

Let Your Employer “Work” for You

Many companies offer their employees a tax-advantaged retirement savings option, such as a 401(k) plan, as part of their benefits package. A 401(k) plan provides you with the opportunity to defer part of your salary, with restrictions, into a retirement fund. Your contributions are pre-tax and any earnings are tax deferred; payment of taxes will not commence until you begin taking withdrawals. In addition, your employer may



choose to match your contributions, up to a predetermined percentage and subject to a maximum. For example, if your employer matches your contributions by 50% for every dollar you put into the fund, your employer will add \$.50. The sooner you take advantage of tax-deferred savings and matching contributions by your employer, the longer your 401(k) has to work for you and the more your savings have the opportunity to grow. ■

Proactive Retirement Planning

While your retirement may seem a long way off, you owe it to yourself to look toward the future and begin thinking about what you can do *today* to help ensure a bright retirement *tomorrow*. Although time may be on your side, if you ask some of the retirees you know, they will probably tell you that saving for retirement is not as simple as it initially appears.

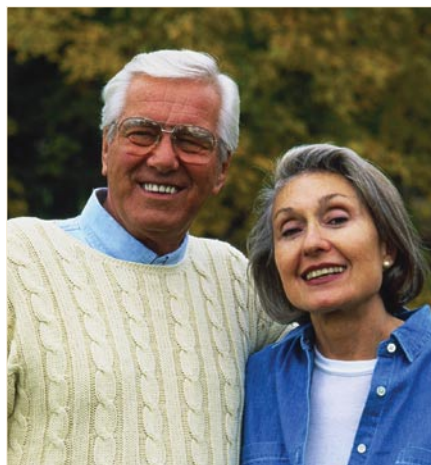
Here are four key factors to consider:

1) Inflation. You may be aware that, over time, inflation can erode your savings. But, many don't realize the potentially serious effects of inflation. At 3% inflation, \$100 today will be worth only \$67.30 in 20 years—a loss of one-third of its value. At 35 years, this amount would be further reduced to just \$34.44. Thus, it is important to seek retirement savings vehicles that have the best chance of outpacing inflation.

2) Taxes. Your present income level, tax bracket, and the types of tax-deferred retirement savings plans that are available to you can

all play an integral part in how much money you can save for your retirement. By maximizing your pre-tax contributions to employer-sponsored plans and **Individual Retirement Accounts (IRAs)**, you can help take advantage of the tax-deferred benefits of such plans.

3) Discipline. Becoming a disciplined saver is one of the key components of retirement plan success. By making *regular* contributions to



your employer-sponsored retirement plan and your IRA, you can maximize the power of **compound interest** (the interest earned not only

on the initial principal, but also on the accumulated interest from prior periods). With consistent contributions, your retirement savings have a greater chance of accumulating to help meet your long-term goals.

4) Personal Savings. Considering the effects of inflation, there is a distinct possibility that your retirement plan income may fall short of your needs, especially during a long retirement. Also, Social Security generally provides only a percentage of retirement income. Thus, to avoid a potential shortfall, start planning to supplement traditional retirement income sources with your own personal savings.

Of course, understanding these principles alone is no guarantee of future success. However, the sooner you begin to recognize the effects that financial forces can have on your retirement income, the more likely you will be to adopt strategies that can help you achieve your long-term objectives. Being proactive today can help increase your chances of having a bright retirement tomorrow. ■

year-end pension legislation provides relief from RMDs

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by April 1, 2010 and then take the 2010 RMD (the second RMD) by December 31, 2010. The new law waives the first RMD (the 2009 RMD) for account owners who turn 70½ in 2009. However, the waiver does not affect RMDs required for 2010. The account owner would still be required to take the second RMD by December 31, 2010.

Pension-related Provisions

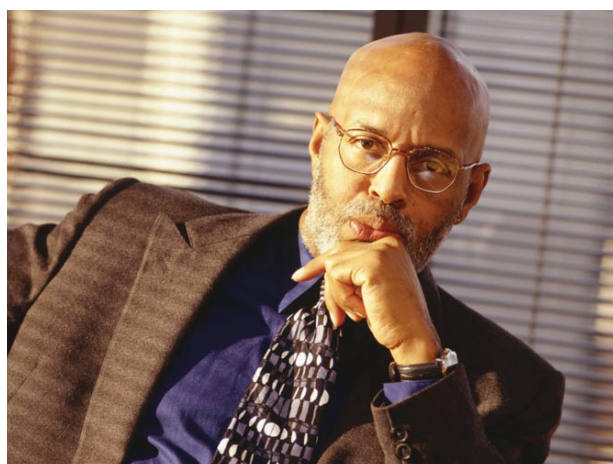
The Worker, Retiree, and Employer Recovery Act of 2008 also provides a number of provisions to provide relief to defined benefit plans struggling to meet funding requirements. Among the changes are new smoothing requirements, adjusted funding targets, and special relief for at-risk

plans. Also, beginning in 2010, companies must offer non-spouse beneficiaries of tax-qualified retirement plans the option to roll over their inherited plan accounts into other tax-qualified retirement plans and IRAs.

For more information about the new law and how it may affect your retirement savings, contact your tax professional. ■

What Will Social Security Do for Me?

A comfortable lifestyle in retirement requires preparation. Most likely, Social Security will not be sufficient to meet your needs. For most people, Social Security provides only a base level of income. The maximum annual benefit for a person of **full retirement age (FRA)** in 2009 is \$27,876; the benefit for a non-working spouse is only 50% of that



amount. These benefits will most likely fall short of meeting all your retirement needs. As you develop a retirement plan that includes additional sources of income, such as benefits from employer-sponsored plans and personal savings, it is important to understand what you can expect from Social Security.

The most important factor in determining how much you will receive is the amount you (and your spouse) have contributed to the Social Security system during your working years. The benefits you receive are based on the income you have earned, subject

to a maximum amount. You can find out how much you can expect to receive by contacting the Social Security Administration (SSA) or visiting their website at www.ssa.gov. Here's a brief overview of the circumstances that determine your eligibility to receive Social Security benefits:

Your Own Benefits. If you've made contributions to the Social Security system over the

years, you can start receiving *partial* benefits at age 62 or *full* benefits when you reach full retirement age (subject to certain limitations). Your benefit will be based on your **primary insurance amount (PIA)**, which is determined by the amount and duration of your con-

tributions to the system. Social Security's full retirement age is 65 for those born prior to 1938; for those born from 1938 through 1959, the age for receiving full benefits rises incrementally until, for those born in 1960 and later, the full retirement age is 67.

Spouse or Divorced Spouse.

You may be eligible for receiving partial benefits based on your spouse's contributions to the Social Security system. A spouse, or divorced spouse, of a participant may receive benefits that are equal to half of the benefits of the working spouse (provided the working spouse is alive) if certain

requirements are met. Benefits are based on your spouse's age 65 Social Security benefit, regardless of when benefits are taken. If you are eligible, you will receive a reduced benefit if it's taken after age 61 and before age 65. Generally, divorced spouses must have been married to the participant spouse for at least ten years to be entitled to benefits. In addition, benefits cease for a divorced spouse upon remarriage.

Widow or Widower. If you are a widow or widower, you are entitled to a benefit that equals your deceased working spouse's primary insurance amount when you reach full retirement age. If you start receiving benefits before full retirement age, the benefit will be reduced.

Surviving Divorced Spouse.

If you are divorced, and your former spouse dies, you may also be entitled to the same benefits as a widow or widower as long as you were married to the deceased working spouse for at least ten years. In addition, if you remarry (including remarriage to someone who is also entitled to receive benefits as a surviving spouse) after you become eligible to receive benefits, you will not lose your benefits.

For many individuals, Social Security benefits play an integral role in helping to provide for a secure retirement. With a thorough assessment of all of your income resources, you can best plan for the retirement you desire. ■

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