Association of Corporate Counsel: Planning for Retirement

Presented By:
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Agenda

- What does retirement mean to you?
- Budgeting & Efficient Capital Allocation
- Insurance Coverage
- Qualified Retirement Plans
- Non-Qualified Retirement Plans
- Investing Outside Your Retirement Plan
- Social Security
- Healthcare/Medicare
- Case Study

What Does Retirement Mean to You?

What every in-house lawyer needs to know!

- What are your goals for retirement?
  - Retirement age
  - Location
  - Part time work

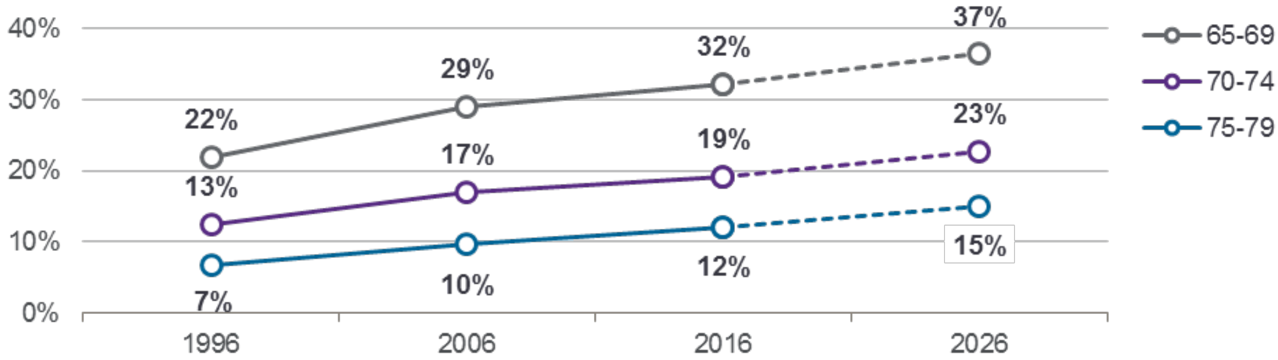
- What are your needs in retirement?
  - Income
  - Longevity

“We need to talk about your focus.”

What every in-house lawyer needs to know!

Earned income in retirement

Percent of people in the civilian labor force 1996-2026

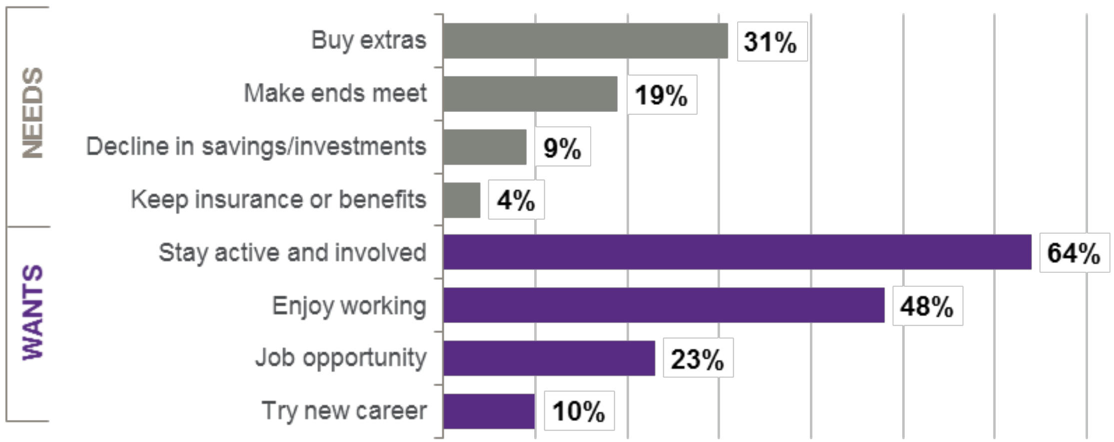


Total civilian population 65+	32mm	36mm	48mm	67mm

IT'S STILL OFF TO WORK I GO

More people are working later in life, motivated by the desire to do so.

Major reasons people work in retirement



Source (top chart): Bureau of Labor Statistics, Employment Projections, Table 3.2 and Table 3.3. Actual data to 2016 and projection to 2026. Civilian population age 65+ is non-institutionalized population.

Source (bottom chart): Employee Benefit Research Institute, Mathew Greenwald & Associates, Inc., 2017 Retirement Confidence Survey. Data as of March 2017. Latest available data through December 31, 2017.

Budgeting & Efficient Capital Allocation

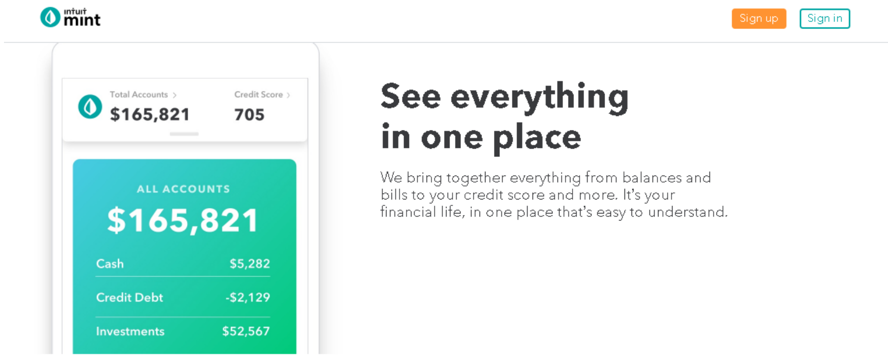
What every in-house lawyer needs to know!

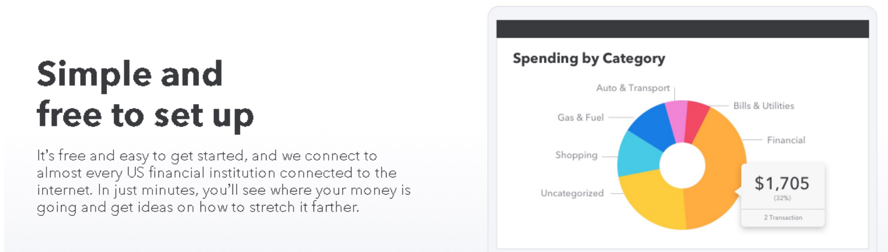
It's more than just "cutting up the pie"

- Increase predictability
- Maximize your financial worth
- Manage surprises when they happen
- Improve your standing with lenders

- Evaluate Your Income

- Track Your Spending





What every in-house lawyer needs to know!

Prioritizing competing goals & capital allocation

Prioritizing goals

- Additional payments on lower interest loans (such as student loans with interest <6%)[1]
- Additional retirement savings

4 Evaluate additional retirement savings and lower interest rate loan reduction

- Other goals such as home purchase or 529 accounts for college education savings
- 401(k) savings

3 Save more in your 401(k) while balancing other goals

- Health Savings Account (HSA) / Health Care Spending Account / Flexible Spending Account[2]
- Additional payments on higher interest rate loans (credit card debt and private student loans with interest rate >6%)[1]
- 401(k) savings – maximize employer match

2 Consider prioritizing matching retirement funds, then high interest debt and health care account funding

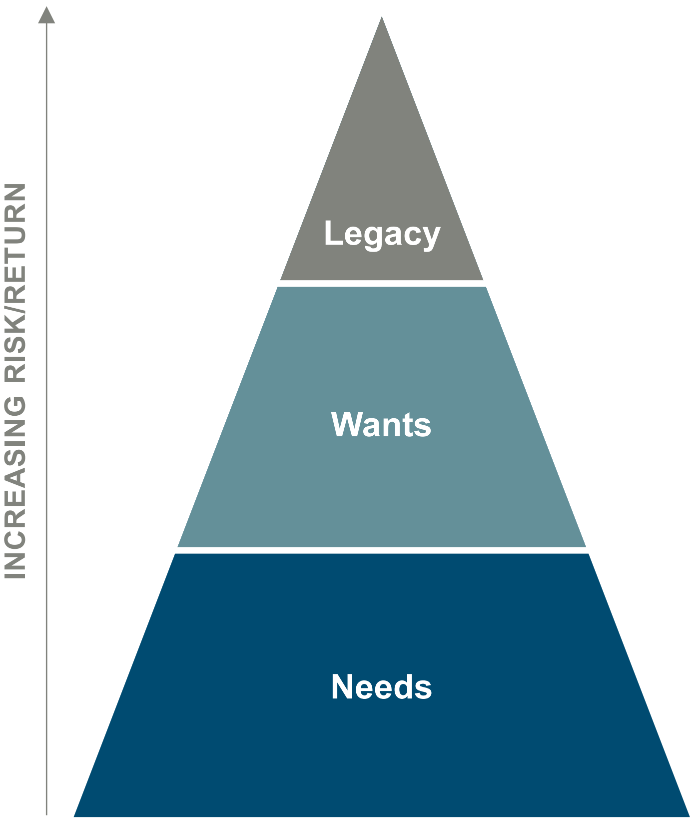
- Long-term disability (if your own income is required for your household) and life insurance (if needed for dependents)
- Emergency savings account (3 – 6 months of expenses)
- Health insurance selection

1 Get prepared to weather financial shocks

Start here

What every in-house lawyer needs to know!

Prioritizing competing goals & capital allocation



Considerations	Potential solutions
What is the time horizon and appropriate planning vehicle for your heirs and your estate goals?	Equities Alternatives*
What are your desires/wants? How much risk are you willing to take?	Equities Extended sector bonds Multi-asset solutions
What are your basic needs? What income sources do you have or will you need to create?	Social Security Pension Protected income High-quality bonds Cash and cash alternatives

BUILDING YOUR PLAN

It may be useful to match dependable income sources with fixed retirement expenses, while coordinating other investments with more discretionary expenses.

For illustrative purposes only. Source: J.P. Morgan Asset Management. Bonds are subject to interest rate risks. Bond prices generally fall when interest rates rise. The price of equity securities may rise or fall because of changes in the broad market or changes in a company's financial condition, sometimes rapidly or unpredictably. Equity securities are subject to "stock market risk," meaning that stock prices in general may decline over short or extended periods of time. Investing in alternative assets involves higher risks than traditional investments and is suitable only for the long term. They are not tax efficient and have higher fees than traditional investments. They may also be highly leveraged and engage in speculative investment techniques, which can magnify the potential for investment loss or gain.

*Equity, fixed income and cash are considered "traditional" asset classes. The term "alternative" describes all non-traditional asset classes. They include private and public equity, venture capital, hedge funds, real estate, commodities, distressed debt and more.

Insurance Coverages

What every in-house lawyer needs to know!

- Health Insurance
  - Deductible
  - Copay
  - Coinsurance
- HSA Eligibility
  - Triple Tax Free Capabilities

"Laughter is the best medicine, but your insurance only covers chuckles, snickers and giggles."

What every in-house lawyer needs to know!

- Property/Casualty Insurance
  - Personal Coverage
  - Professional Coverage
  - Deductibles
  - Umbrella policies

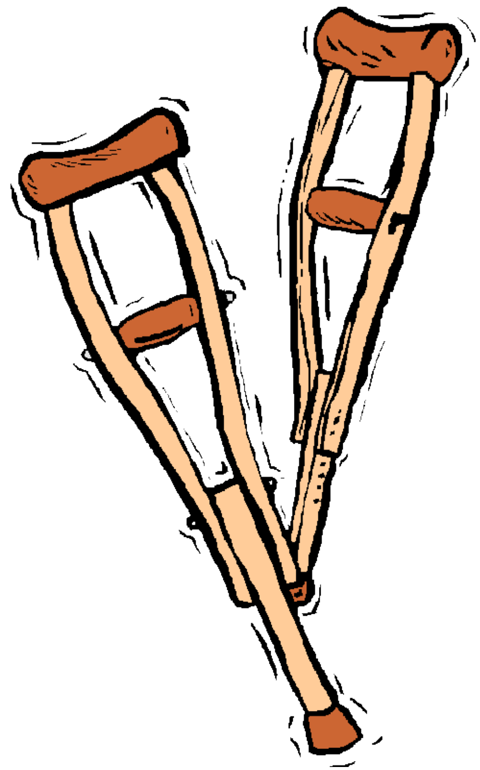
What every in-house lawyer needs to know!

- Life Insurance
  - Term Insurance
  - Permanent Life Insurance
    - Universal Life
    - Indexed Universal
    - Variable Life
    - Whole Life
- Life Insurance as an investment
  - Where can this fit in your retirement plan?

"The policy pays out in the case of accidental death, or if you can make it look like an accident."

What every in-house lawyer needs to know!

- Disability Insurance
  - Are benefits Tax Free or Taxable?
  - Caps on coverage
    - I.e.: 60% of income up to…
  - Supplemental coverage
  - Partial disability coverage



What every in-house lawyer needs to know!

Understanding annuities: Is an annuity right for you and which type?

	RISK TOLERANCE	CONTRACT GROWTH AND PAYOUT	TYPE OF ANNUITY	CHARACTERISTICS
INCOME NOW	Risk averse investor	■ Fixed rate of growth ■ Fixed income payout	Single Premium Immediate Annuity (SPIA)	■ Single premium purchase payment
INCOME LATER[4]			Deferred Rate Annuity	■ Purchase payments grow at a fixed or market rate for a specified period of time
			Deferred Income Annuity (DIA)	■ Often purchased to provide income in late retirement years[1]
			Qualified Longevity Annuity Contract (QLAC)	■ May transfer 25% or up to $125,000 from retirement account to fund annuity; this amount exempt from RMDs at age 70½ ■ Must begin distributions by age 85 or as specified by contract
	Risk averse/ moderate investor	■ Variable rate of growth ■ Variable payout with fixed minimum	Fixed Indexed Annuity (FIA)	■ Account growth is tied to a particular index (i.e. S&P 500) with a cap on growth in exchange for downside protection[2] ■ Most contracts provide guaranteed minimum fixed growth
INCOME LATER OR NEVER[4]	Moderate investor	■ Variable rate of growth ■ Variable income with no guaranteed minimum payout[3]	Variable Annuity (VA)	■ Purchase payments are invested in subaccounts like mutual funds ■ Guaranteed living benefits ("GLBs")[3] may be available for additional cost to provide minimum guaranteed account growth and/or minimum guaranteed retirement income
	Moderate/ aggressive investor		Investment Only Variable Annuity (IOVA)	■ Purchase payments invested in a variety of subaccounts, including alternatives and hedge funds ■ Used for tax deferral, estate planning and asset location

[1] DIAs are also known as longevity annuities and purchased during healthy years to provide income in later years when illness, dementia or other disability may set in and hinder sound income planning decisions.

[2] Some contracts contain caps on growth and limit gains attributable to account based on participation rate or other factors.

[3] Guaranteed living benefits and death benefits may be available with certain fixed and variable annuity products at additional cost.

[4] While non-qualified annuities are not generally subject to RMDs, state laws requiring contract annuitization may apply.

Qualified Retirement Plans

What every in-house lawyer needs to know!

- Types of Qualified Retirement Plans
  - Defined Contribution
    - 403(b)
    - 401(k)
    - 401(a)
  - Defined Benefit
    - Cash Balance
    - Traditional Defined Benefit

What every in-house lawyer needs to know!

- 401k/403b
  - $19,000 Deferral
    - $6,000 “Catch Up” contribution for ages 50+
  - Total contributions up to $56,000. Includes:
    - Employee deferrals
    - Match
    - Profit sharing
    - After-tax contributions
  - Roth 401(k) Component Widely Available
    - No income restrictions
  - Profit-Sharing or Non-elective contributions
    - Employer contribution to all eligible employees

- After-Tax Contribution Plan Design
  - Allows payroll contributions in addition to the normal $19k/$25k on an after-tax basis
    - Not to be misconstrued with Roth
    - Funds are deposited on after-tax basis
    - Grow tax deferred
    - Earning are taxable upon distribution
    - Contributions/basis distributed tax free
    - Affects ACP portion of plan's annual non-discrimination test

What every in-house lawyer needs to know!

	Pre-Tax	Roth	After-Tax
Contribution Limits	**$19,000*** (limit covers both Pre-Tax and Roth)		**$56,000**** (after-tax balances eligible for Roth in-plan conversion)
Match Eligibility	**Eligible for Match** 50% of first 6% (total max. match of 3% of comp.)		**Not eligible for match**
Taxation of Contributions	**No** federal taxes paid	Federal taxes paid	Federal taxes paid
Taxation at Distribution	Federal taxes paid on deferrals plus associated earnings	**No** federal taxed paid (earnings are never taxed on qualified distributions***)	Federal taxes paid **on earnings only**

* Employees age 50+ can contribute an additional $6,000 in catch-up contributions.

** You can continue to make after-tax contributions until you reach the total annual limit for employee **and** employer contributions combined.* For 2019, total annual contributions cannot exceed the lesser of 100% of your compensation or $56,000. Midland Credit also caps After-Tax contributions at 10% of eligible compensation.

*** Earnings are tax free as long as it has been at least five years from your first Roth contribution and you are at least age $59^{1/2}$, disabled or deceased.

What every in-house lawyer needs to know!

Deferral	$19,000
Match	$ 8,400
Total Contribution	$27,400
Available After-Tax	$28,600
Total w/After-Tax	$56,000

Deferral	$19,000
Match	$ 8,400
Catch Up	$6,000
Total Contribution	$33,400
Available After-Tax	$28,600
Total w/After-Tax	$62,000

What every in-house lawyer needs to know!

- After-Tax Contribution Plan Design
  - Supercharge your 401k…

  - In-plan Roth Conversion is Key
    - Max out “regular” pre-tax or Roth Deferrals first
    - Account for company matching contribution
    - Contribute remaining “cap space” to after-tax
    - Convert after-tax dollars to Roth
    - Allows after-tax contributions to then grow <u>tax free</u>

What every in-house lawyer needs to know!

- Split Plan Design
  - Ideal for attorney firms
  - 2 retirement plans:
    - Partners & Staff
    - Highly compensated Associates

  - Allows for one plan design geared towards maximizing partner contributions while minimizing costs for employee contributions
  - Associates can receive competitive match
  - <u>Plans will be cross tested; increased plan administration involved.</u>

What every in-house lawyer needs to know!

- Defined Benefit
  - Employer only contributions
  - Actuarial calculations and investment management retained at the company level.
  - Contributions up to $220,000
    - Ideal for small, closely held, profitable entities

- Cash Balance Plan Design
  - Pension plan where employee is entitled to ending balance based on predetermined formula
- Defined Benefit Plan Design
  - Pension plan where employee is entitled to monthly benefit amount based on predetermined formula

Non-Qualified Retirement Plans

What every in-house lawyer needs to know!

- <u>Non-Qualified Deferred Compensation Plans</u>
  - Section 409(a) or 457(b) of the IRC
  - Who is this type of plan right for?
    - Company business cycle
    - Top 10% of the company
    - Corporate tax rate versus personal tax rate

  - 457(b)
    - Available for non-profit entities
    - $19,000 or $25,000 maximum contributions
    - Offers additional tax deductible savings opportunity
    - Distributed upon separation from service
      - Governmental 457(b) plans may be rolled over

What every in-house lawyer needs to know!

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  - Section 409(a) or 457(b) of the IRC
  - Who is this type of plan right for?
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    - Offers additional tax deductible savings opportunity
    - Distributed upon separation from service
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What every in-house lawyer needs to know!

- Section 409(a) Plans
  - Available to corporate entities
  - Save up to 100% of comp – no limit
  - Company contributions
  - Recruit, reward, retain

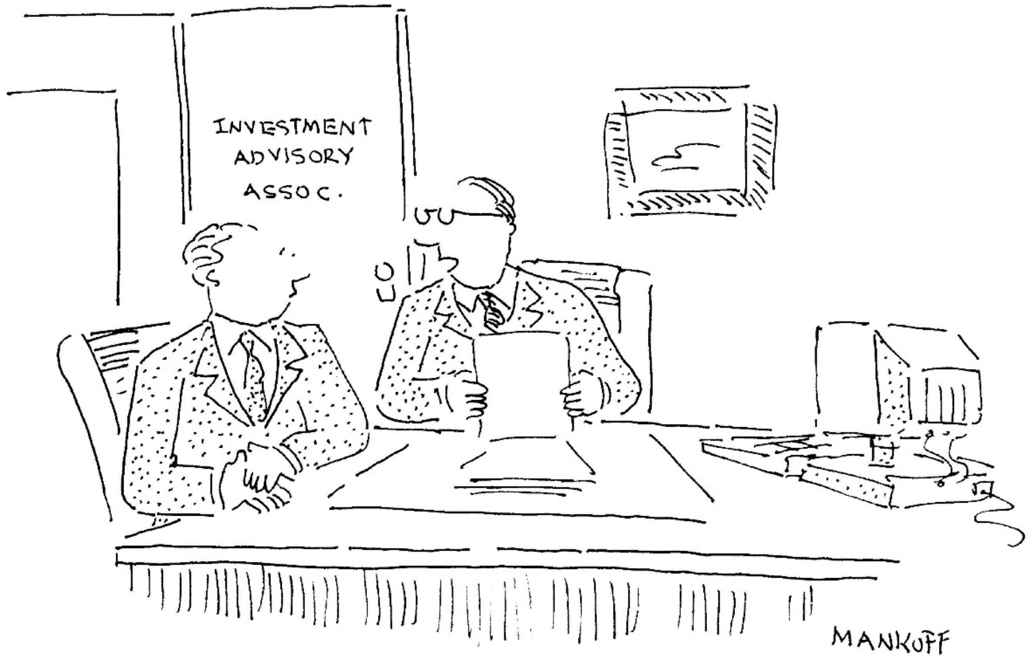
  - Executive utilization
    - Ladder in-service distributions
    - Manage tax implications related to RSU's or vested stock options
    - Manage overall tax liability from year to year
    - Distributed upon separation from service or according to elections made by executive

Investing Outside Your Retirement Plan

What every in-house lawyer needs to know!

- Investment Vehicles
  - Brokerage Accounts
  - Real Estate
  - Precious Metals
  - Private Equity

- Distributions Matter



"As a general rule, it is unwise to have ones assets evenly divided among stocks, bonds and lottery tickets."

What every in-house lawyer needs to know!

- Brokerage Investing
  - Stocks
  - Bonds
  - Mutual Funds
  - ETF’s
  - Hedge Funds

- Advisor or Self Managed
  - Advisory fees
  - Fiduciary capacity
  - Investing Platforms
    - Fees
    - Accessibility
    - Reporting

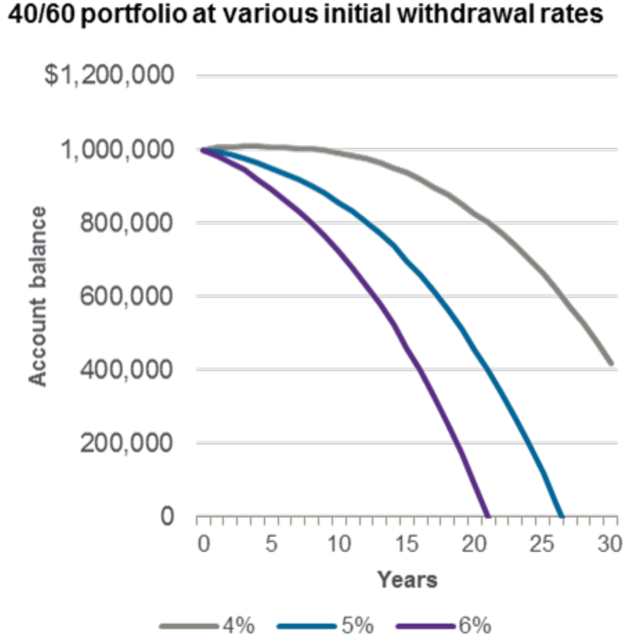
What every in-house lawyer needs to know!

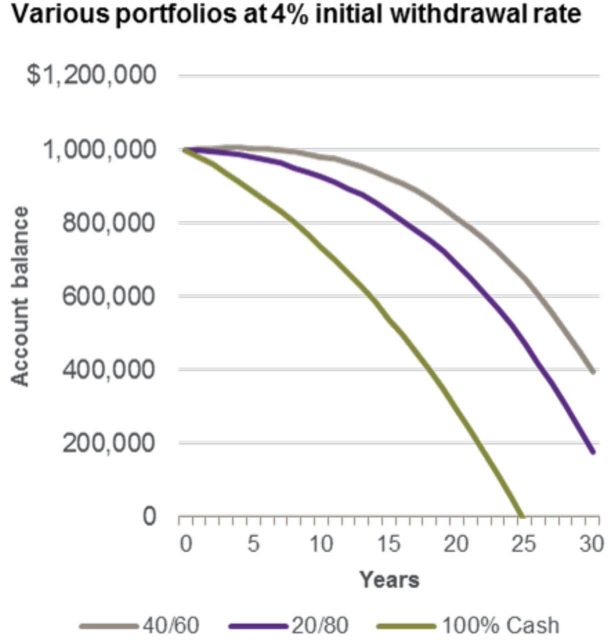
- Asset Allocation
  - Mix of investments owned in your portfolio
  - Over 90% of your investment rate of return is attributable to this mix
  - Diversification
    - Over-diversification

- Asset Location
  - What investments are held in taxable versus tax deferred or tax free accounts?
  - Controlling RMD’s
  - Maxmizing Inheritance

What every in-house lawyer needs to know!

Years of sustainable withdrawals for a portfolio for typical markets
Projected nominal outcomes, 50th percentile





ONE SIZE DOES NOT FIT ALL

Higher initial withdrawal rates or overly conservative portfolios can put your retirement at risk. However, setting your spending at retirement too low and not adjusting along the way may require unnecessary lifestyle sacrifices in retirement. You may want to consider a dynamic approach that adjusts over time to more effectively use your retirement savings.

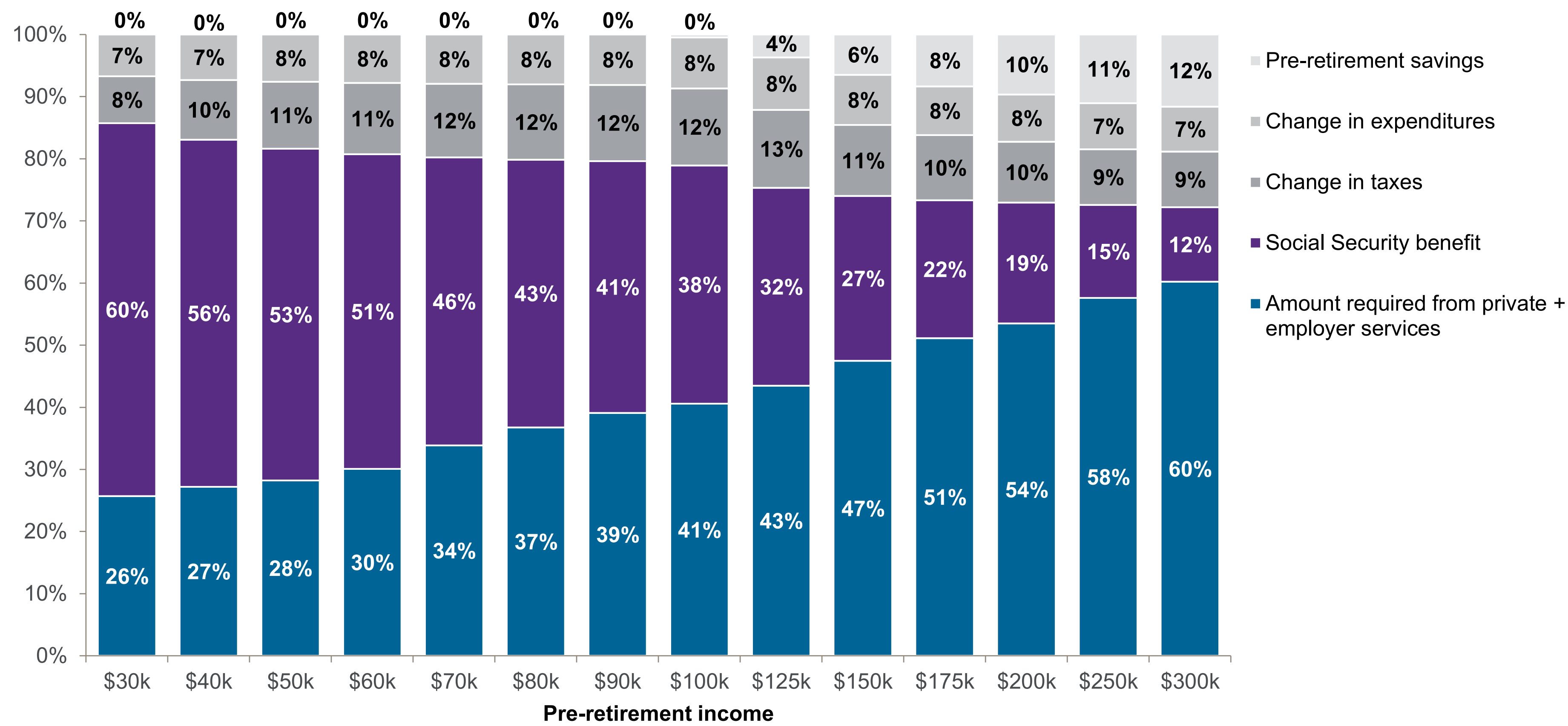
50th percentile means that 50% of the time you'll have better outcomes. Based on the high percentage of outcomes that tend to be clustered near the median, this may be considered the most likely potential outcome. For the 40/60 portfolio at a 4% withdrawal rate, the real portfolio value at period 30 is $214,164 vs. $417,489 nominal.

These charts are for illustrative purposes only and must not be used, or relied upon, to make investment decisions. Portfolios are described using equity/bond denotation (e.g. a 40/60 portfolio is 40% equities and 60% bonds). Hypothetical portfolios are composed of US Large Cap for equity, US Aggregate Bonds and US Cash for cash, with compound returns projected to be 5.50%, 3.25% and 2.00%, respectively. J.P. Morgan's model is based on J.P. Morgan Asset Management's (JPMAM) proprietary Long-Term Capital Market Assumptions (10–15 years). The resulting projections include only the benchmark return associated with the portfolio and does not include alpha from the underlying product strategies within each asset class. The yearly withdrawal amount is set as a fixed percentage of the initial amount of $1,000,000 and is then inflation adjusted over the period (2.25%). Allocations, assumptions and expected returns are not meant to represent JPMAM performance. Given the complex risk/reward tradeoffs involved, we advise clients to rely on judgment as well as quantitative optimization approaches in setting strategic allocations. References to future returns for either asset allocation strategies or asset classes are not promises or even estimates of actual returns a client portfolio may achieve.

Social Security – The Million Dollar Decision

What every in-house lawyer needs to know!

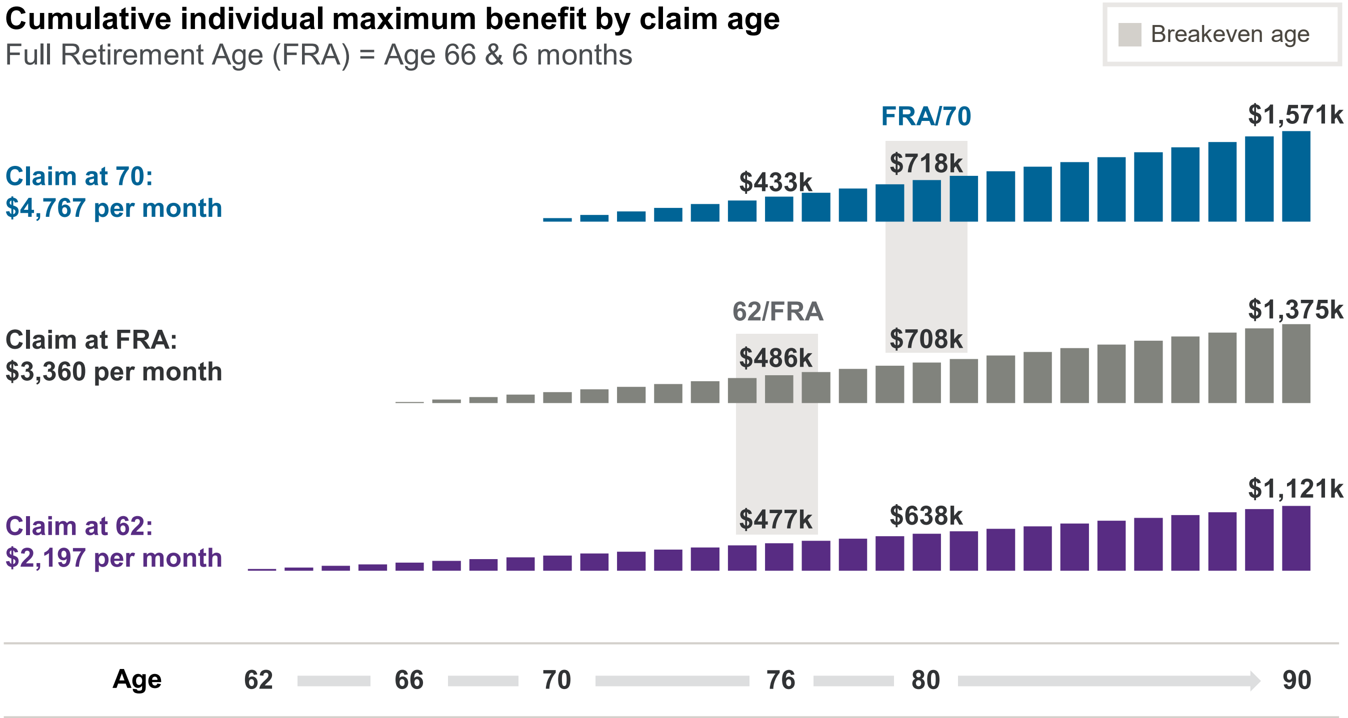
Replacement rate detail by household income



Source: J.P. Morgan Asset Management analysis, 2019. Household income replacement rates are derived from an inflation-adjusted analysis of: Consumer Expenditure Survey (BLS) data (2013-2016); Social Security benefits using modified scaled earnings in 2019 for a single wage earner at age 65 and a spousal benefit at age 62 reduced by Medicare Part B premiums. The income replacement needs may be lower for households in which both spouses are working and the second spouse's individual benefits are greater than their spousal benefit. Single household income replacement needs may vary as spending is typically less than a two-spouse household; however, the loss of the Social Security spousal benefit may offset the spending reduction. Percentages and values may not sum due to rounding.

What every in-house lawyer needs to know!

Cumulative individual maximum benefit by claim age
Full Retirement Age (FRA) = Age 66 & 6 months



At age 62, probability of living to at least age:	62	66	70	76	80	90
Man	100%	94%	87%	73%	60%	21%
Woman	100%	97%	92%	81%	71%	32%
Couple*	100%	99%	99%	95%	88%	47%

PLANNING OPPORTUNITY

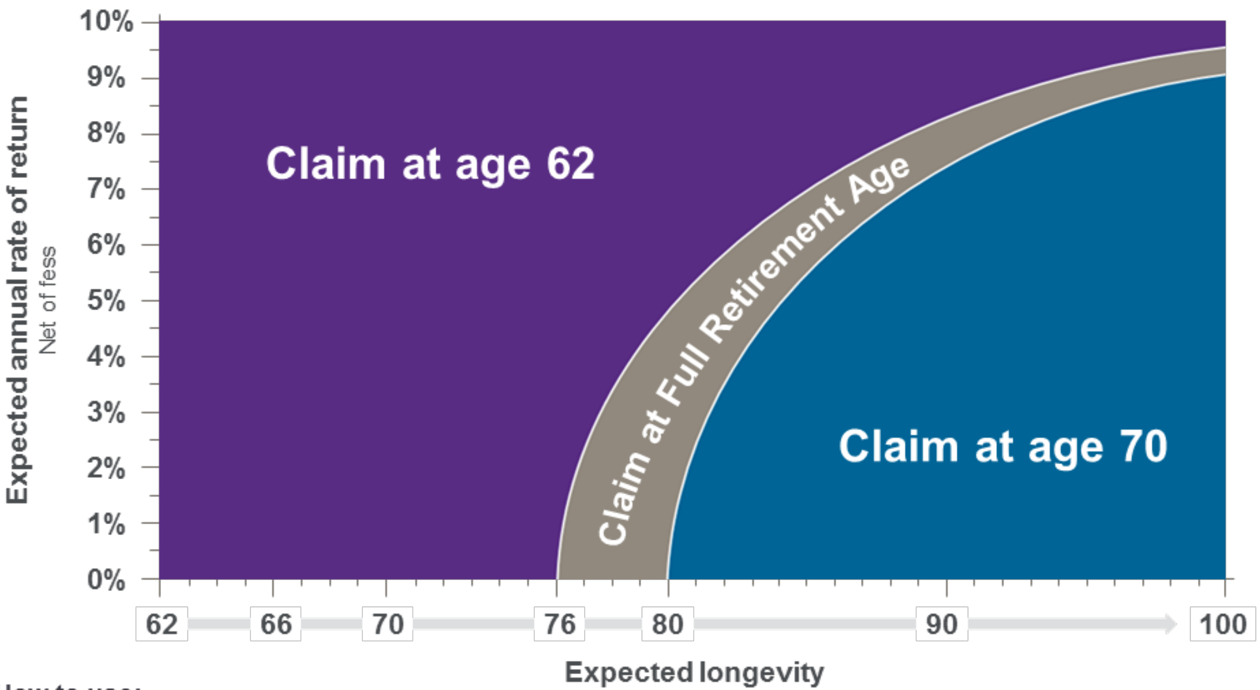
Delaying benefits means increased Social Security income later in life, but your portfolio may need to bridge the gap and provide income until delayed benefits are received.

Source: Social Security Administration, J.P. Morgan Asset Management.

*Couple assumes at least one lives to the specified age or beyond. Breakeven assumes the same individual, born in 1957, earns the maximum wage base, retires at the end of age 61 and claims at 62 & 1 month, 66 & 6 months and 70, respectively. Benefits are assumed to increase each year based on the Social Security Administration 2018 Trustee's Report "intermediate" estimates (annual benefit increase of 2.7% in 2020 and 2.6% thereafter). Monthly amounts without the cost of living adjustments (not shown on the chart) are: $2,197 at age 62; $3,030 at FRA; and $3,879 at age 70. Exact breakeven ages are 76 & 4 months and 80 & 5 months.

What every in-house lawyer needs to know!

Comparison of claim age based on an individual's expected rate of return and longevity
Color represents the claim age with the highest expected lifetime benefits



How to use:

- Go to the intersection of your expected rate of return and your expected longevity.
- The color at this intersection represents the Social Security claim age that maximizes total Social Security benefits over the course of one's life – given the three options of age 62, Full Retirement Age (age 66 & 4 months) and age 70.
- Example: For an individual invested in a diversified 40/60 portfolio (expected rate of return of 5%) and average expected female longevity (age 86) = Claim at age 70.

Source (chart): Social Security Administration, J.P. Morgan Asset Management.

Source (longevity at age 62): Social Security Administration, Period Life Table, 2014 (published in 2017), J.P. Morgan Asset Management.

Source (expected returns): J.P. Morgan Asset Management Long-Term Capital Market Assumptions.

Assumes the same individual, born in 1956, retires at the end of age 61 and claims at 62 & 1 month, 66 & 4 months and 70, respectively. Benefits are assumed to increase each year based on the Social Security Administration 2017 Trustee's Report "intermediate" estimates (annual benefit increase of 3.1% in 2019 and 2.6% thereafter). Expected rate of return is deterministic, in nominal terms, and net of fees.

CONSIDER PORTFOLIO RETURNS AND YOUR LIFE EXPECTANCY

The lower your expected long-term investment return and the longer your life expectancy – the more it pays to wait to take your benefit.

Healthcare Considerations in Retirement

WHAT IS MEDICARE?

Medicare is a federally sponsored health initiative specifically for people 65 years and older.

The purpose of Medicare is to provide medical services to assist in the recovery from an injury or an illness.

Medicare is a fee-for-service program

PARTS OF MEDICARE

Medicare Part A – Inpatient hospital care

$0 monthly premium

Medicare Part B – Outpatient medical care

$135.50 monthly premium

Medicare Part D - Rx drug coverage

- $20 - $100 monthly, based on plan choice

IRMAA –
INCOME RELATED MONTHLY ADJUSTMENT AMOUNT

If MAGI in 2017 for Married filing Jointly is:	Medicare Part B Premium	Medicare Part D Adjustment
Below $170,000	$135.50	N/A
Between $170,001 and $214,000	$189.60	$12.40
Between $214,001 and $267,000	$270.90	$31.90
Between $267,001 and $320,000	$352.20	$51.40
Between $320,001 and $750,000	$433.40	$70.90
Greater than $750,000	$460.50	$77.40

MEDICARE LATE ENROLLMENT PENALTY

- Applies to Medicare Parts B and D
- Part B Penalty – 10% increase to monthly premium for each year not enrolled
- Part D penalty – 1% increase to standard monthly premium for each month not enrolled
- Lifetime penalties
- <u>Waived if on an employer-sponsored group health plan!</u>

What every in-house lawyer needs to know!

Should I sign up for Medicare?

Assumes adequate employer coverage and qualification for Medicare at age 65[1]

START HERE

Check with your employer: Do you have creditable coverage?[2]

Y N

Do you contribute to a Health Savings Account (HSA)?

Y N

Have you filed or will you file for Social Security benefits within 6 months?

Y N

Sign up for Medicare and stop monthly HSA contributions[3]

- Enroll in Medicare up to 3 months before your 65th birthday to avoid gaps in coverage.
- Stop monthly HSA contributions to avoid tax penalties.

Sign up for Part A

- Part A is free for people who paid payroll taxes for 40 quarters (10 years) and employer coverage is usually primary.

Do not sign up for Medicare

- HSA contributions while on Medicare will result in tax penalties.[3]

Stop HSA contributions and opt out of Medicare Part B

- Once you start Social Security benefits, you will automatically be enrolled in Part A, retroactive to the lesser of six months or age 65.
- Tax penalties apply if you are enrolled in Part A and contribute to an HSA.[3]
- Contact Medicare.gov to opt out of Part B.

AVOID COVERAGE GAPS AND PENALTIES

Creditable coverage is key: If you don't have it, sign up for Medicare.

COBRA coverage (a temporary extension of major medical employer coverage when work stops) is not creditable.[4]

Do not contribute to an HSA while enrolled (including Part A through Social Security receipt).

[1] Assumes Part A is no cost (generally for people who paid payroll taxes for 40+ quarters or are married to a beneficiary who did so). Some individuals may choose to sign up for Parts A and Part B earlier than shown if they want additional coverage.

[2] Ask your employer for documentation of creditable coverage. Employer coverage for <20 people is usually not creditable and will end at age 65 or become secondary after Medicare has paid. If you don't have creditable coverage, late penalties will apply if you don't sign up in your initial enrollment window and Medigap plans may deny coverage or underwrite after the initial enrollment period in most states.

[3] Total HSA contributions for the year in excess of the maximum contribution for the year / the number of months you are eligible to make contributions will result in tax penalties. This is not intended to be individual tax advice; consult IRS Publication 969 or your tax advisor.

[4] Some extended prescription coverage may be creditable. Ask your benefits administrator.

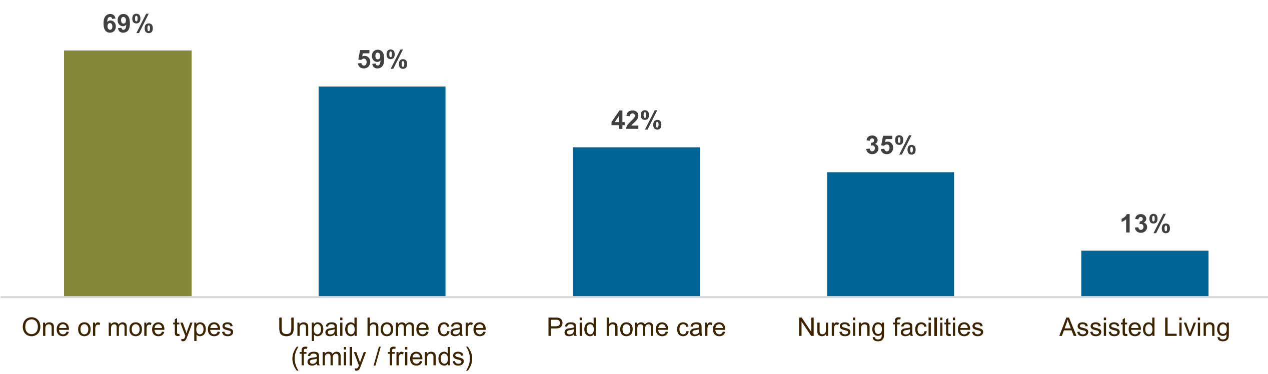
For more information, see www.mymedicarematters.org/enrollment/am-i-eligible, sponsored by the National Council on Aging.

Source: IRS Publication 969, National Council on Aging and Medicare.gov websites as of January 23, 2019; JPM analysis.

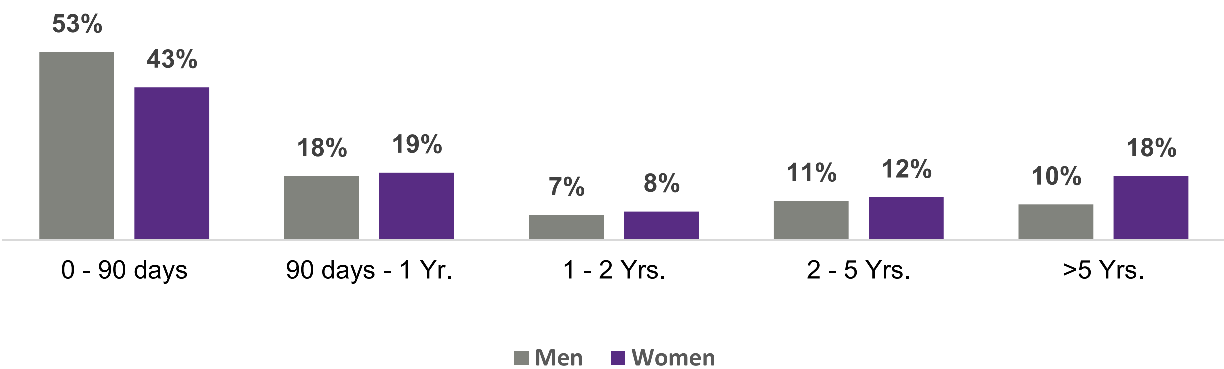
What every in-house lawyer needs to know!

Long-term care planning

Lifetime probability of needing long-term care (LTC) services by type



Lifetime distribution and duration of need for significant LTC at age 65



CONSIDER THE RANGE OF POSSIBLE CARE NEEDS

There is a high likelihood of needing care. This often starts at home before progressing to other settings.

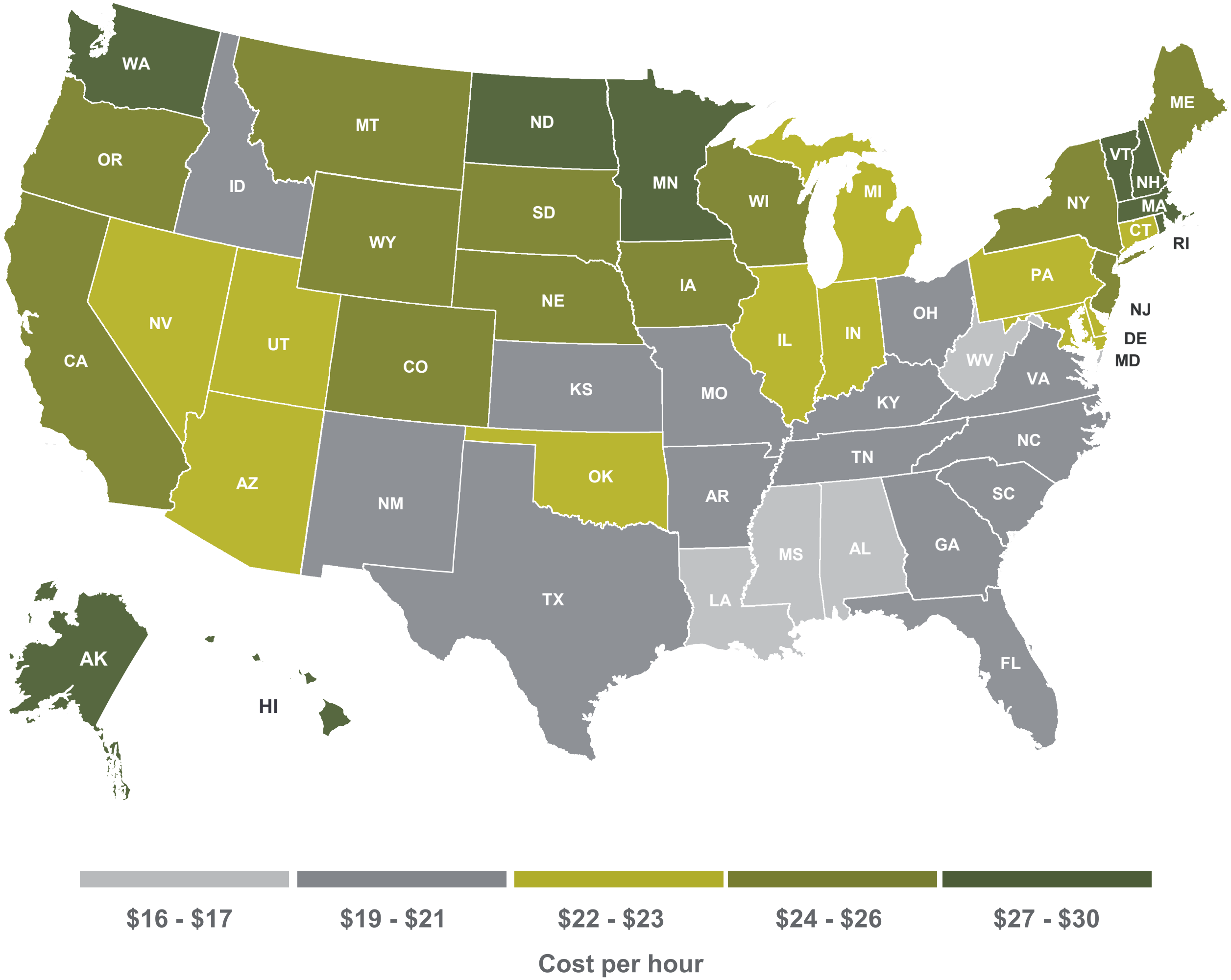
While considering the range of possibilities, take into account that 1 in 10 men and nearly 2 in 10 women are projected to have a significant care need for more than 5 years.

Top chart: Includes all types of care including managing finances, taking medications, shopping, using transportation and food preparation, as well as more significant care needs. Bottom chart: Significant care needs includes two or more activities of daily living such as eating, dressing, bathing, transferring and toileting or severe cognitive impairment. Those who meet the cognitive impairment criteria who require care for less than 90 days are included in the 90 days – 1 year category.

Source: Top chart: U.S. Department of Health and Human Services, ASPE Issue Brief, Revised February 2016, Table 1. Bottom chart:: U.S. Department of Health and Human Services, Administration on Aging statistics last updated October 10, 2017. Most recent data available as of December 31, 2018.

What every in-house lawyer needs to know!

Median hourly cost of home health aid by state



THE COST OF CARE

The median cost for a home health aide is $22 an hour but can vary widely. While the most common starting point for care is at home, it may progress to other settings.

The national annual median cost for a private room in a nursing home is $100,375. These costs are commonly between $85,000 and $120,000 but may be lower or higher. For costs specific to your area see: www.genworth.com/costofcare

Notes: Costs also vary within states by county and city. Median values are rounded to the nearest dollar. For more information on cost of care in your location see the Genworth website at: www.genworth.com/costofcare

Source: Genworth Cost of Care Survey 2018, conducted by CareScout®, June 2018.
Methodology document: https://pro.genworth.com/riiproweb/productinfo/pdf/131168.pdf

Retirement Planning Case Study

Cash flow case study: The Smiths

Bill and Sue Smith, plan to retire at 62

Target after-tax income at age 62 = $90,000

- Bill will receive a Pension of $25,000 (single-life, integrated benefit)
- Bill will receive early Social Security benefits of $18,000
- Sue will receive early Social Security benefits of $12,000

By age 62, their Retirement Nest Egg will be $1,050,000

This is a hypothetical example for illustrative purposes only. *Assumes real return of 4%
All tax calculations assume that 85% of Bill and Sue's Social Security payments are included in taxable income

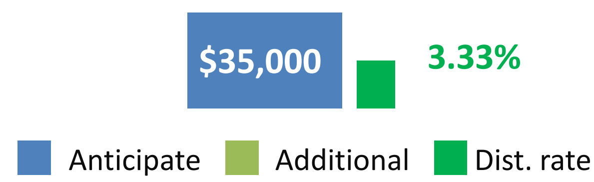
Evaluating the Smiths' plan
What Bill and Sue are expecting

Target Income: $90,000

Bill's pension (single-life): **$25,000**
Bill's Social Security: **$18,000**
Sue's Social Security: **$12,000**

Subtotal: $55,000
Shortfall: ($35,000)

Distributions Taken – Amount and Rate



$35,000 Distribution taken from $1,050,000 Investment Portfolio.

Withdrawal Rate: 3.33%

This is a hypothetical example for illustrative purposes only. All numbers in 2016 dollars, assumes 4% real return on investments; Age 62, Non-qualified balance = $260,000; Qualified balance = $790,000

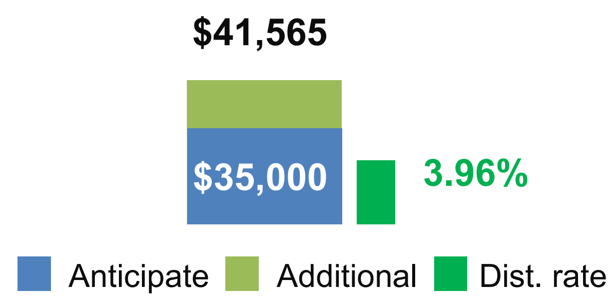
Evaluating the Smiths' plan
The effect of taxes

Target Income: $90,000

Bill's pension (single-life): **$25,000**
Bill's Social Security: **$18,000**
Sue's Social Security: **$12,000**
Subtotal: **$55,000**

Original Shortfall: $35,000
Taxes: $6,565
Additional Shortfall: $6,565

Distributions Taken – Amount and Rate



$41,565 Distribution taken from $1,050,000 Investment Portfolio

Withdrawal Rate: 3.96%

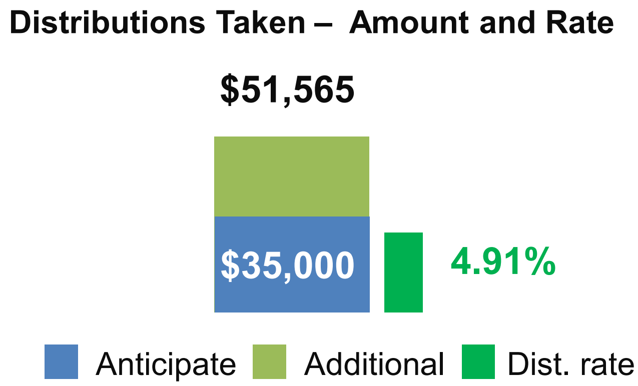
This is a hypothetical example for illustrative purposes only. All numbers in 2016 dollars, assumes 4% real return on investments; Age 62, Non-qualified balance = $260,000; Qualified balance = $790,000. 13% effective tax rate. Distribution from non-qualified accounts are 50% return of principal, 25% long term gains and 25% short term gains. Long term capital gains taxed at 0%.

Evaluating the Smiths' plan
Age 65 – Medicare costs

Target Income: $90,000

Bill's pension (single-life): **$25,000**
Bill's Social Security: **$18,000**
Sue's Social Security: **$12,000**
Subtotal: **$55,000**

Original Shortfall: $35,000
Medicare: $10,000
Taxes: $6,565
Additional Shortfall: $16,565



$51,565 Distribution taken from
$1,050,429 Investment Portfolio

Withdrawal Rate: 4.91%

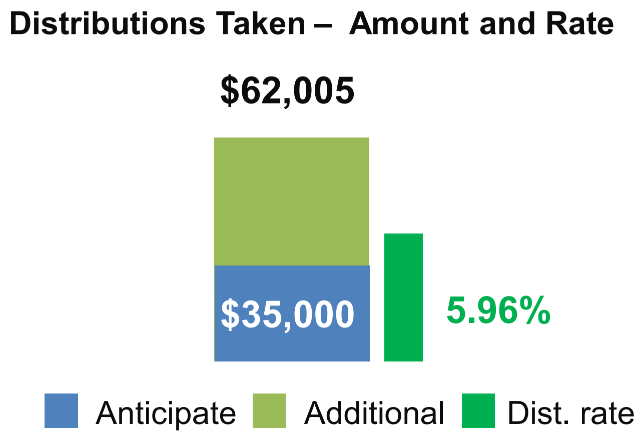
This is a hypothetical example for illustrative purposes only. All numbers in 2016 dollars, assumes 4% real return on investments;
Age 65, Non-qualified balance = $161,786; Qualified balance = $888,643. 13% effective tax rate. Distribution from non-qualified accounts are 50% return of principal, 25% long term gains and 25% short term gains. Long term capital gains taxed at 0%.

Evaluating the Smiths' plan
Age 66 – Pension leveling

Target Income: $90,000

Bill's pension (single-life): **$13,000**
Bill's Social Security: **$18,000**
Sue's Social Security: **$12,000**
Subtotal: **$43,000**

Original Shortfall: $35,000
Medicare: $10,000
Taxes: $5,005
Additional Shortfall: $27,005



$62,005 Distribution taken from $1,040,671 Portfolio.

Withdrawal Rate: 5.96%

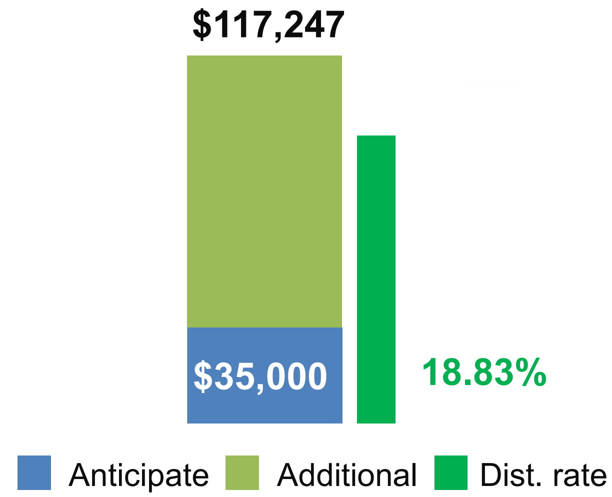
This is a hypothetical example for illustrative purposes only. All numbers in 2016 dollars, assumes 4% real return on investments; Age 66, Non-qualified balance = $116,482; Qualified balance = $924,188 13% effective tax rate. Distribution from non-qualified accounts are 50% return of principal, 25% long term gains and 25% short term gains. Long term capital gains taxed at 0%.

Evaluating the Smiths' plan
Age 78 – Long-term care expenses

Target Income: $90,000

Bill's pension (single-life): **$13,000**
Bill's Social Security: **$18,000**
Sue's Social Security: **<u>$12,000</u>**
Subtotal: **$43,000**
Original Shortfall: $35,000
Medicare: $10,000
Long-term care: $40,000
Taxes: $20,247
Additional Shortfall: $82,247

Distributions Taken – Amount and Rate



$117,247 Distribution taken from $622,725 Investment Portfolio

Withdrawal Rate: 18.83%

This is a hypothetical example for illustrative purposes only. All numbers in 2016 dollars, assumes 4% real return on investments; Age 78, Non-qualified balance = $0; Qualified balance = $622,725 13% effective tax rate. Distribution from non-qualified accounts are 50% return of principal, 25% long term gains and 25% short term gains. Long term capital gains taxed at 0%.

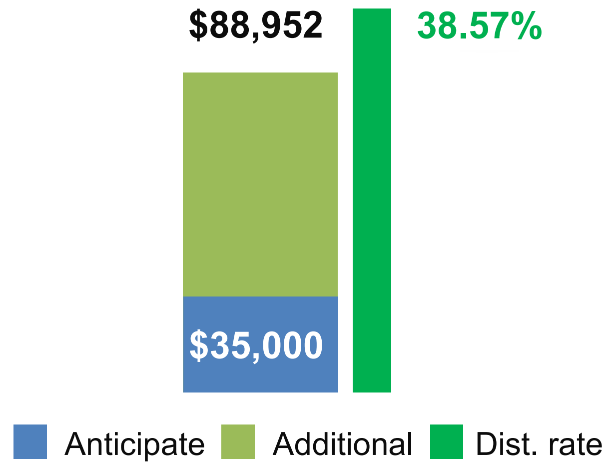
Evaluating the Smiths' plan
Age 82 – Bill dies

Target Income: $90,000

Bill's pension (single-life): **$0**
Bill's Social Security: **$0**
Sue's Social Security: **$19,800**
Subtotal: **$19,800**

Original Shortfall: $35,000
Medicare: $5,000
Taxes: $13,752
Additional Shortfall: $53,952

Distributions Taken – Amount and Rate



$88,952 Distribution taken from $230,614 Investment Portfolio

Sue Runs Out of Money at Age 84

This is a hypothetical example for illustrative purposes only. All numbers in 2016 dollars, assumes 4% real return on investments; Age 82, Non-qualified balance = $0; Qualified balance = $230,614; 13% effective tax rate. Distribution from non-qualified accounts are 50% return of principal, 25% long term gains and 25% short term gains. Long term capital gains taxed at 0%.

The Smiths create a retirement income plan

- Postpone retirement until age 64
- Take a non-integrated pension payment
- Delay taking Social Security until Full Retirement Age

This is a hypothetical example for illustrative purposes only.

Creating a retirement income plan
Product allocation

- **Purchase Long-term Care Insurance**
  - Coverage: $300,000
  - Premium: $4,000 per year *
- **Purchase a $300,000 Life Insurance**
  - Premium: $3,685 per year **
- **Invest $300k in an IRA Annuity to begin income at age 66**
  - Use annuity for basic, non-discretionary expenses not covered by Social Security and pension
- **Invest remaining portfolio in another IRA and non-qualified accounts**
  - These assets will be used to supplement income until age 66 when guaranteed income begins

Sources:*Average cost for $300,000 of coverage LTC insurance for 55 year old couple is $2,400 per year for $150 daily benefit, American Long Term Care Insurance Association, 2013http://www.aaltci.org/long-term-care-insurance/learning-center/how-much-does-long-term-care-insurance-cost.php,** Prudential Universal Life Policy, Face Amount $300,000; cost $3,685 per year for healthy 55 year old male, non-smoker;

The Smiths' plan in action
Age 64 – Use investments to bridge gap

Target Income: $97,685

Bill's Pension (single-life): **$20,000**
From investments: **$80,285**
Subtotal : **$100,285**
Taxes: **($2,600)**
Final: **$97,685**

Total Investment Balance After Distributions:
$1,099,727

AGE 64

This is a hypothetical example for illustrative purposes only . 13% effective tax rate. Distributions from non-qualified accounts are 50% return of principal, 25% long term gains and 25% short term gains. Long term capital gains taxed at 0%.

The Smiths' plan in action
Age 66 – Begin Social Security and annuity income

Target Income: $97,685

Bill's Pension (single-life):	**$20,000**
Bill's Social Security:	**$24,000**
Sue's Social Security:	**$16,000**
From Annuity:	**$19,547**
From other investments:	**$37,699**
Subtotal :	**$117,246**
Medicare expense:	**($10,000)**
Taxes:	**($9,561)**
Final:	**$97,685**

Total Investment Balance After Distributions:

$1,037,869

This is a hypothetical example for illustrative purposes only. 13% effective tax rate. Distributions from non-qualified accounts are 50% return of principal, 25% long term gains and 25% short term gains. Long term capital gains taxed at 0%.

The Smiths' plan in action
Age 78 – Long-term care costs begin

Target Income: $95,685

Bill's pension (single-life): **$20,000**
Bill's Social Security: **$24,000**
Sue's Social Security: **$16,000**
From Annuity: **$19,547**
From other investments: **$41,034**
Subtotal : **$120,580**
Medicare Expense: **($10,000)**
Taxes: **($14,895)**
Final: **$95,685**

Total Investment Balance After Distributions: $741,760

AGE 78

This is a hypothetical example for illustrative purposes only. 13% effective tax rate. Distributions from non-qualified accounts are 50% return of principal, 25% long term gains and 25% short term gains. Long term capital gains taxed at 0%.

The Smiths' plan in action
Age 82: Bill dies

Target Income: $92,000

Bill's Pension (single-life):	**$0**
Bill's Social Security:	**$0**
Sue's Social Security:	**$24,000**
From Annuity:	**$19,547**
From other investments:	**$19,701**
From Life Insurance:	**$41,507**
Subtotal :	**$104,754**
Medicare expense:	**($5,000)**
Taxes:	**($7,754)**
Final:	**$92,000**

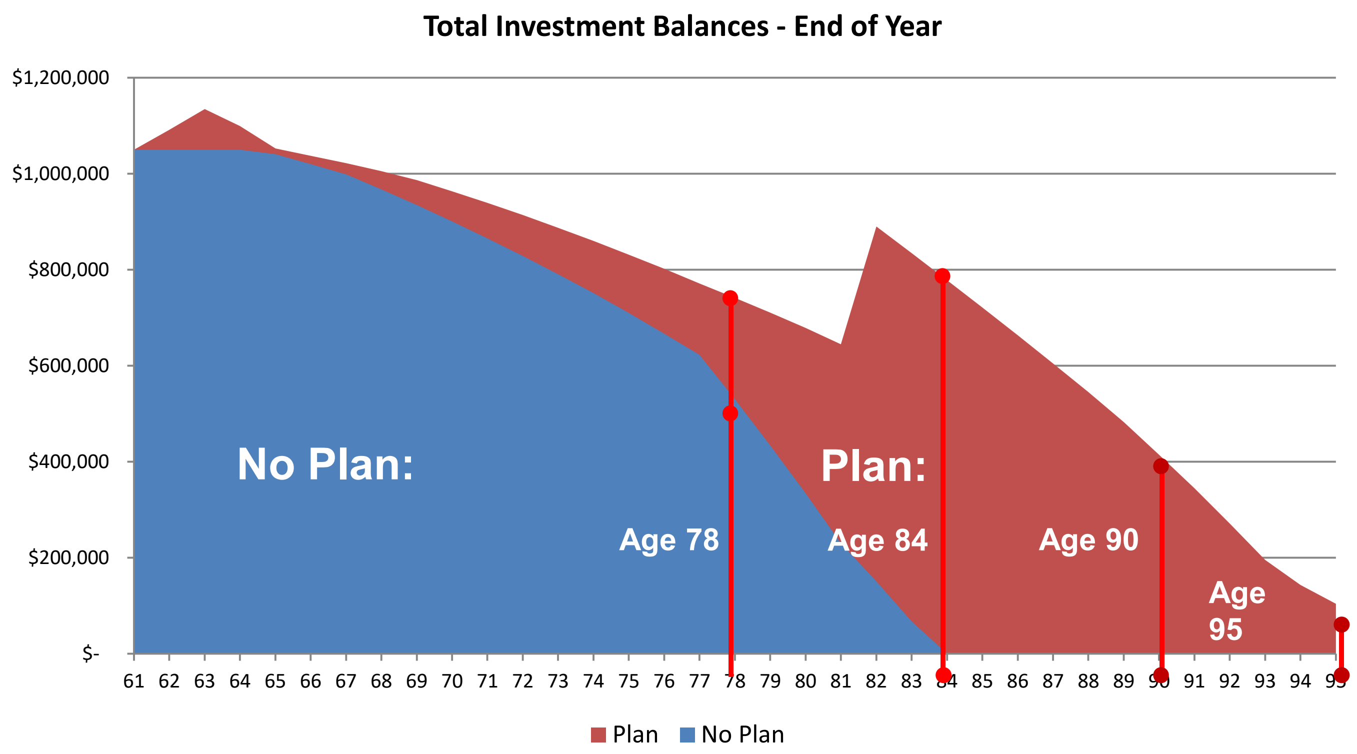
Total Investment Balance After Distributions:

$890,328

AGE 82

This is a hypothetical example for illustrative purposes only. 13% effective tax rate. Distributions from non-qualified accounts are 50% return of principal, 25% long term gains and 25% short term gains. Long term capital gains taxed at 0%.

The Smiths' plan in action
The big picture



What every in-house lawyer needs to know!

- Retirement decisions can cause gaps in your income
- Larger income needs can reduce your assets
- Financial planning before retirement can help achieve and maintain security in retirement

A full array of services available…

- Retirement Planning
- Income Planning
- Financial Planning
- Investment Management
- Insurance and Annuities
- Long-Term Care Planning
- Education Planning
- Estate and Legacy Planning

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