Preface

Retirement planning today is more important than ever before. People are living longer and enjoying healthier lives so that some retirees spend more time retired than they did working. But no matter when you retire, the critical question is, "How can I ensure that I don't outlive my income?"

Most financial planners today suggest that you will need 80 to 85 percent of your current income in retirement. The traditional sources of retirement income are usually referred to as a "three-legged stool" : Social security benefits, tax-deferred retirement plans, and personal savings in taxable investments.

Although Social Security will probably still be around in the future, it likely will become an even shorter leg of the retirement stool as benefits are reduced. While tax-deferred savings vehicles such as employer-sponsored retirement plans, individual retirement accounts (IRAs), annuities, and cash-value life insurance are the best means for accumulating retirement funds, they are fraught with complicated rules.

On top of saving for your own future, you must plan for getting your children's future off on the right foot with a college education. Saving for your children's education is by itself a tough proposition, but when faced with both crucial planning objectives simultaneously, many people are overwhelmed and uncertain.

The topics in *Living & Learning: Achieve Retirement and Education Security* range from setting retirement goals to the proper disposition of retirement plan proceeds after death. The answers provided by our contributing authors will give you a broad understanding of how to untangle the retirement knot and to focus on what you can control in the process of saving for retirement and education or just retirement. All of us are faced with these important issues whether we are young or old, in the planning stages or already retired, or have a great deal of money or a modest estate.

Based on the research submitted by the contributors, planning for retirement and education consists of three distinct phases: accumulation, distribution, and protection. We present the information in *Living & Learning* in terms of those phases.

Recognizing the Need to Plan

The first step in retirement and educational planning is resolving to plan. In Part One of *Living & Learning*, our contributing authors discuss the necessity of planning and how to plan for your retirement. According to a report from the National Center for Health Statistics in early 2005, men have a life expectancy of 74.8 years and women, 80.1 years. As medical technology improves, these figures will certainly increase. According to a survey by the Employee Benefit Research Institute, the average retirement account balance (net of loans) for employer-sponsored contributory plans at the end of 2001 was a scant $43,215. For most of us who will be retired for fifteen to twenty years, that's not nearly enough, and none of us wants to outlive our money. That is the most important reason to plan for retirement. It is critical that you design and implement a retirement plan as soon as possible- even if you won't be retiring for another forty years- so that you have sufficient time to accumulate the resources you need to retire comfortably.

Planning for college expenses is equally important, even if your child is only one year old. According to the College Board, the national average tuition for in-state students at public, four-year colleges in 2004 was $5,132. Tuition at private, four-year schools was $20, 082. By the time children of today's young parents need money to go to school, the tuition for the public university could be $8, 736, even if costs increased only by the current inflation rate of 3 percent each year.

Accumulating Funds

Once you decide to begin saving for retirement or education, you have to choose the vehicles by which you will accumulate funds. In Part Two, Saving through Traditional Vehicles, our contributors simplify the complex rules for many of the traditional tax-deferred options for retirement and educational savings and discuss the pros and cons of each. The traditional retirement vehicles include personal IRAs and the employer-sponsored contributory plans such as the 401(k). The traditional educational savings options included custodial accounts, college savings plans, the Coverdell Education Savings Account, and the qualified 529 tuition plans.

There are more advanced methods to accumulate retirement and educational funds, which our contributors describe in Part Three. These methods, which include irrevocable trust for spouses or children, cash-value life insurance, and annuities, are important options for individuals who are already contributing the maximum amounts to the traditional tax-deferred savings vehicles but want to accumulate more.

Individuals who contribute to tax-deferred IRAs or 401(k) plans are responsible for investing the funds in those accounts as well as managing their taxable investments. In Part Four, our contributing authors help readers understand the basic principles of investing and the investment strategies that can help them achieve their goals.

Options for Withdrawing Funds

Although it may seem unnecessary to plan for withdrawing funds from retirement and educational accounts, in chapters 11 and 12 of Part Five, Protecting and Preserving Wealth, our contributors explain why it is important. There are many rules and regulations governing the withdrawal of funds from tax-deferred retirement accounts, including special rules for making "discretionary" withdrawals before age 59 ½ and between 59 ½ and 70 ½, and for taking required minimum distributions after age 70½. If you violate these rules, it can result in substantial taxes and penalties and destroy the benefits of compounded tax-deferred growth.

Protecting Accumulated Funds

As you accumulate funds for retirement and education, it is important to protect them for your heirs after your death. While many parents spend and enjoy their retirement funds without regard to passing them on to their children, none of us knows when we will die. If you have a substantial accumulation of funds remaining at your death, you certainly want those funds to pass to your heirs without undue depletion for taxes. This requires an understanding of the special income and estate tax ramifications on retirement and educational funds and the techniques for leaving them, along with your other assets, to your heirs in the most tax-efficient manner possible. Chapters 13, 14, and 15 contain options for how to protect these funds from excessive income and estate taxation.

It is equally important to protect your retirement and educational funds from being depleted during your lifetime by creditors, a disability, or by health care and long-term-care expenses. In chapter 16 of Part Five, our contributors discuss the solutions to these eventualities.

Planning within Specific Scenarios

Up to this point in *Living & Learning*, our contributing authors have discussed the methods of saving, the rules and regulations for taking distributions, and the laws regarding taxation o retirement and educational funds. In Part Six, Saving and Investing Strategies, our contributors present strategies to implement the methods and rules within the context of specific ages and the number of years to retirement or college.

Living & Learning is the product of a national research project that involved the planning knowledge, ideas, and expertise of talented attorneys, accountants, and financial advisors from across the United States. It is not an annotated reference book intended to cover everything about planning down to the smallest detail for retirement and education. Rather, *Living & Learning* is organized in six parts and covers what our contributors' clients today consider the most important aspects of planning and accumulating funds for retirement and education and how to protect those funds.

Our contributing authors were challenged with a single goal: to provide readers with the best possible answers to the questions they are most frequently asked by their clients. Because of the book's question-and-answer format, even the newest reader to the topic will be able to make sense of the many aspects of retirement planning.

Living & Learning offers insights into the issues that are important for planning. For many, just knowing which questions to ask will help and will encourage them to plan. Armed with the information in this book, you will be able to enter into the planning process with more confidence.

The responses of our contributing authors reflect their differing professional views and feelings with regard to virtually every retirement planning issue. As editor, I have attempted to blend these differences into an overall perspective that provides readers with the best overview and understanding possible. At times, I included differing opinions in the responses in order to present a variety of good approaches and to allow readers to decide which one they are most comfortable with.

Readers may find a subtle repetitiveness in the text. Rather than always referring readers back and forth among chapters of the book, we have repeated some of the same information in various sections. Our goal is to ensure that readers turning to virtually and section of the book will find complete information there. Experience tells us that few readers will read this book cover to cover. As you skip around, reading specific sections, you will encounter much of the background information necessary to understand each topic.

In addition to the twenty chapters in *Living & Learning,* we have included four appendixes. We included in appendix A the agencies that regulate attorneys, accountants, and financial planning professionals. Recognizing that it is difficult to know what professional designations and accreditations mean, we also included in appendix A the professional designations and accreditations for accountants and attorneys and the Web site for the Securities and Exchange Commission where readers can find the same information for the financial advisors.

The professionals who contributed to *Living & Learning* were chosen to participate in this project through a stringent application process that is described in appendix B. Alphabetical and geographical lists of all the contributors are presented in appendixes C and D, respectively.

We have also included a glossary of the most commonly recognized terms that we use in the text.

Living & Learning contains the most current information available on retirement and educational planning issues. A few statistics relevant to planning are indexed for inflation, which we have noted, and will change each year. Our contributing authors used 2005 figures in their explanations. If you read this book in later years, those figures may be different, but in all cases, the theories and strategies behind the figures will remain the same. As with all general reference works, readers should be careful not to treat the information in *Living & Learning* as a recommendation for any particular course of action in individual circumstances. No other concept came through to us more clearly than the diversity of successful strategies available to individuals and families, as will as the damage that can result from using the wrong strategy. We specifically recommend that, in planning for your well-being and that of your family, you seek advice from competent professionals in each relevant discipline.

Living & Learning is a collaborative effort of a number of planning professionals. We are proud of the efforts that our contributing authors made to bring you such a practical information and strategies to implement successful retirement and educational plans. We hope that the information in this book helps you attain a better understanding of accumulating, distributing, and protecting retirement and educational funds so that you can confidently and successfully participate in your own planning process.

We especially wish to thank Jon P. Kubler for his contributions to *Living & Learning* and are honored to dedicate this special edition to him.

Robert S. Keebler
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