Asset Management Resources, LLC
Centerville Gardens
1060 Falmouth Rd, Suite B2
Hyannis, MA 02601
508-771-8900
Toll 866-771-8901
kristen@amrfinancial.com
www.AMRfinancial.com

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eResources Review

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For Women, a Pay Gap Could Lead to a Retirement Gap

Women in the workforce generally earn less than men. While the gender pay gap is narrowing, it is still significant. The difference in wages, coupled with other factors, can lead to a shortfall in retirement savings for women.

Statistically speaking

Generally, women work fewer years and contribute less toward their retirement than men, resulting in lower lifetime savings. According to the [U.S. Department of Labor:]

- 56.7% of women work at gainful employment, which accounts for 46.8% of the labor force
- The median annual earnings for women is $39,621 — 21.4% less than the median annual earnings for men
- Women are more likely to work in part-time jobs that don't qualify for a retirement plan
- Of the 63 million working women between the ages of 21 and 64, just 44% participate in a retirement plan
- Working women are more likely than men to interrupt their careers to take care of family members
- On average, a woman retiring at age 65 can expect to live another 20 years, two years longer than a man of the same age

All else being equal, these factors mean women are more likely than men to face a retirement income shortfall. If you do find yourself facing a potential shortfall, here are some options to consider.

Plan now

Estimate how much income you'll need. Find out how much you can expect to receive from Social Security, pension plans, and other available sources. Then set a retirement savings goal and keep track of your progress.

Save, save, save

Save as much as you can. Take full advantage of IRAs and employer-sponsored retirement plans such as 401(k)s. Any investment earnings in these plans accumulate tax deferred — or tax-free, in the case of Roth accounts. Once you reach age 50, utilize special "catch-up" rules that let you make contributions over and above the normal limits (you can contribute an extra $1,000 to IRAs, and an extra $6,000 to 401(k) plans in 2017). If your employer matches your contributions, try to contribute at least as much as necessary to get the full company match — it's free money. Distributions from traditional IRAs and most employer-sponsored retirement plans are taxed as ordinary income. Withdrawals prior to age 59½ may be subject to a 10% federal income tax penalty.

Delay retirement

One way of dealing with a projected income shortfall is to stay in the workforce longer than you had planned. By doing so, you can continue supporting yourself with a salary rather than dipping into your retirement savings. And if you delay taking Social Security benefits, your monthly payment will increase.

Think about investing more aggressively

It's not uncommon for women to invest more conservatively than men. You may want to revisit your investment choices, particularly if you're still at least 10 to 15 years from retirement. Consider whether it makes sense to be slightly more aggressive. If you're willing to accept more risk, you may be able to increase your potential return. However, there are no guarantees; as you take on more risk, your potential for loss (including the risk of loss of principal) grows as well.

Consider these common factors that can affect retirement income

When planning for your retirement, consider investment risk, inflation, taxes, and health-related expenses — factors that can affect your income and savings. While many of these same issues can affect your income during your working years, you may not notice their influence because you're not depending on your savings as a major source of income. However, these common factors can greatly affect your retirement income, so it's important to plan for them.

Life Is for the Living, and So Is Life Insurance

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications.

Life insurance guarantees are based on the claims-paying ability and financial strength of the life insurance company issuing the policy.

Life can be busy. The requirements of work and family often leave little time to step back and think about where you've been and where you're heading. But as your responsibilities grow, so does the need to evaluate what would happen if life for you stopped. September is Life Insurance Awareness Month and a good time to reflect on how life insurance can help those you leave behind — the living.

Your spouse or life partner

A successful marriage is often predicated on sharing and providing for one another, and that includes each other's financial obligations. If you were suddenly no longer in the picture, would there be enough money to pay for your final expenses, cover debt, and buy some time to allow your significant other to adjust to a new way of life? Life insurance can provide funds to cover immediate expenses and income to help support your surviving loved one.

Your children

You've worked hard to provide for your kids, to give them the chance to realize their hopes and dreams. Your children are likely your greatest responsibility — a responsibility that doesn't end with your passing. Whether your children are in diapers or about to enter college, if something happened to you or your spouse, or both of you, would there be enough income to continue to provide financially for your children? Life insurance can help provide the resources for their continued growth and maturation.

Your home

Buying a home may be the largest single expenditure of your life. While being a homeowner is exciting, mortgage payments, often lasting 30 years, along with maintenance, utility costs, homeowners insurance, and real estate taxes can add up to a long-term financial commitment. Adequate life insurance protection can provide funds that could be used to cover these expenses, allowing your family to remain in their home.

Your business

Do you own your own business? Life insurance can fit into your business plan in many ways. It can be part of an employee benefit program, with coverage under a group plan. Life insurance purchased on the lives of certain key employees can protect your company from the loss of talented and valuable workers. And life insurance can be used to fund a buy-sell agreement.

Caring for an aging parent or loved one

Are you caring for an aging parent or loved one? Would the people who depend on you be able to afford quality health care and a comfortable place to live without your financial support? Life insurance can become extremely important in these situations, helping to provide for these individuals in the event of your death.

Planning for retirement

Preparing for retirement probably means you're saving as much as you can in your 401(k), IRA, or other savings vehicle. If you die before you get to enjoy your retirement, will your retirement plan die for your surviving loved ones as well? Not only will your salary be unavailable to help pay for current living expenses, but your income won't be there to build the nest egg for the retirement of your spouse or life partner. Life insurance can help provide funds that can be used for your spouse's or life partner's retirement.

Your health has changed

If your health declines, how will it affect your life insurance? A common worry is that your insurer could cancel your coverage should your health change. However, changes to your health will not affect your current insurance coverage, provided you continue to pay your premiums on time. In fact, you should take a closer look at your life insurance policy to find out if it offers any accelerated (living) benefits that you can access in the event of a serious or long-term illness.

Leaving a legacy

Life insurance can be used to increase the size of an estate for your heirs. The death benefit could provide your beneficiaries with a larger legacy than might otherwise be possible. The cost of life insurance may be significantly less than the proceeds of the policy paid to your beneficiaries when you die.

Charitable giving

Donating a life insurance policy to a charity may enable you to make a larger gift than you otherwise could afford. Further, the government encourages charitable giving by providing tax advantages for certain charitable donations (the charity must be a qualified charity). This means that both you and the charity could benefit from your donation (though some charities may not accept a gift of life insurance for various reasons).

AMR ASSET MANAGEMENT RESOURCES

Is It Wise to Trade Your Pension for a Lump Sum?

About 41 million people are participants (active, retired, or separated vested) of PBGC-insured corporate pension plans.

Source: Congressional Budget Office, 2016

Most private employers have already replaced traditional pensions, which promise lifetime income payments in retirement, with defined contribution plans such as 401(k)s. But 15% of private-sector workers and 75% of state and local government workers still participate in traditional pensions.[1] Altogether, 35% of workers say they (and/or their spouse) have pension benefits with a current or former employer.[2]

Many pension plan participants have the option to take their money in a lump sum when they retire. And since 2012, an increasing number of large corporate pensions have been implementing "lump-sum windows" during which vested former employees have a limited amount of time (typically 30 to 90 days) to accept or decline buyout offers.[3] (Lump-sum offers to retirees already receiving pension benefits are no longer allowed.)

By shrinking the size of a pension plan, the company can reduce the associated risks and costs, and limit the impact of future retirement obligations on current financial performance. However, what's good for a corporation's bottom line may or may not be in the best interests of plan participants and their families.

For many workers, there may be mathematical and psychological advantages to keeping the pension. On the other hand, a lump sum could provide financial flexibility that may benefit some families.

Weigh risks before letting go

A lump-sum payout transfers the risks associated with investment performance and longevity from the pension plan sponsor to the participant. The lump-sum amount is the discounted present value of an employee's future pension, set by an IRS formula based on current bond interest rates and average life expectancies.

Individuals who opt for a lump-sum payout must then make critical investment and withdrawal decisions, and determine for themselves how much risk to take in the financial markets. The resulting income is often not enough to replace the pension income given up, unless the investor can tolerate exposure to stock market risk and is able to achieve solid returns over time.

Gender is not considered when calculating lump sums, so a pension's lifetime income may be even more valuable for women, who tend to live longer than men and would have a greater chance of outliving their savings.

In addition, companies might not include the value of subsidies for early retirement or spousal benefits in lump-sum calculations.[4] The latter could be a major disadvantage for married participants, because a healthy 65-year-old couple has about a 73% chance that one spouse will live until at least 90.[5]

When a lump sum might make sense

A lump-sum payment could benefit a person in poor health or provide financial relief for a household with little cash in the bank for emergencies. But keep in mind that pension payments (monthly or lump sum) are taxed in the year they are received, and cashing out a pension before age 59½ may trigger a 10% federal tax penalty.[6] Rolling the lump sum into a traditional IRA postpones taxes until withdrawals are taken later in retirement.

Someone who expects to live comfortably on other sources of retirement income might also welcome a buyout offer. Pension payments end when the plan participant (or a surviving spouse) dies, but funds preserved in an IRA could be passed down to heirs.

IRA distributions are also taxed as ordinary income, and withdrawals taken prior to age 59½ may be subject to the 10% federal tax penalty, with certain exceptions. Annual minimum distributions are required starting in the year the account owner reaches age 70½.

It may also be important to consider the health of the company's pension plan, especially for plans that don't purchase annuity contracts. The "funded status" is a measure of plan assets and liabilities that must be reported annually; a plan funded at 80% or less may be struggling. Most corporate pensions are backstopped by the Pension Benefit Guaranty Corporation (PBGC), but retirees could lose a portion of the "promised" benefits if their plan fails.

The prospect of a large check might be tempting, but cashing in a pension could have costly repercussions for your retirement. It's important to have a long-term perspective and an understanding of the tradeoffs when a lump-sum option is on the table.

[1] U.S. Bureau of Labor Statistics, 2016

[2] Employee Benefit Research Institute, 2016

[3, 4] *The Wall Street Journal,* June 5, 2015

[5] Society of Actuaries, 2017

[6] The penalty doesn't apply to employees who retire during or after the year they turn 55 (50 for qualified public safety employees).

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IMPORTANT DISCLOSURES

If I donate used property to charity, what documentation is needed?

The documentation needed to obtain a federal income tax deduction for donating used property to a charity typically depends on the value of the property. In general, do not attach the documentation to your income tax return. Keep the records so that you can provide them to the IRS if requested to do so.

If you claim a deduction of less than $250, you must have a receipt from the charitable organization (a letter acknowledging your contribution will suffice) that shows the name of the organization, the date and location of your contribution, and a reasonably detailed description of the property. You must also have a record of the fair market value (FMV) of the property (and how you determined it) at the time of the contribution.

If you claim a charitable deduction for $250 or more, you must substantiate the contribution with a contemporaneous written acknowledgment of the contribution from the charity. The acknowledgment must contain the name of the charity and a reasonably detailed description of the property. The acknowledgment must also include either (1) a statement that no goods and services were provided by the charity in return for the contribution, (2) a good-faith estimate of the value of such goods and services (these reduce the amount of the charitable deduction), or (3) a statement that the goods and services were token benefits or consisted entirely of insubstantial membership benefits or intangible religious benefits.

If the value of the contribution is over $500, your records must also include how you acquired the property (e.g., purchase, gift, inheritance, or exchange), when you obtained the property, and the cost or other basis of the property (including any adjustments).

If you claim a deduction of over $5,000 for a noncash charitable contribution of one item or a group of similar items, you must also obtain a qualified written appraisal of the donated property from a qualified appraiser.

If the amount of your deduction for all noncash contributions is more than $500, you must file IRS Form 8283 with your federal income tax return.

Cartoon: College Time