Financial Foresight

Dempsey Investment Management, LLC
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Are You Ready to Retire?

The question is actually more complicated than it first appears, because it demands consideration on two levels. First, there's the emotional component: Are you ready to enter a new phase of life? Do you have a plan for what you would like to accomplish or do in retirement? Have you thought through both the good and bad aspects of transitioning into retirement? Second, there's the financial component: Can you afford to retire? Will your finances support the retirement lifestyle that you want? Do you have a retirement income plan in place?

What does retirement mean to you?

When you close your eyes and think about your retirement, what do you see? Over your career, you may have had a vague concept of retirement as a period of reward for a lifetime of hard work, full of possibility and potential. Now that retirement is approaching, though, you need to be much more specific about what it is that you want and expect in retirement.

Do you see yourself pursuing hobbies? Traveling? Have you considered volunteering your time, taking the opportunity to go back to school, or starting a new career or business? It's important that you've given it some consideration, and have a plan. If you haven't -- for example, if you've thought no further than the fact that retirement simply means that you won't have to go to work anymore -- you're not ready to retire.

Don't underestimate the emotional aspect of retirement.

Many people define themselves by their profession. Affirmation and a sense of worth may have come, in large part, from the success that you've had in your career. Giving up that career can be disconcerting on a number of levels. Consider as well the fact that your job provides a certain structure to your life. You may also have work relationships that are important to you. Without something concrete to fill the void, you may find yourself scrambling to address unmet emotional needs.

While many see retirement as a new beginning, there are some for whom retirement is seen as the transition into some "final" life stage, marking the "beginning of the end." Others, even those who have the full financial capacity to live the retirement lifestyle they desire, can't bear the thought of not receiving a regular paycheck. For these individuals, it's not necessarily the income that the paychecks represent, but the emotional reassurance of continuing to accumulate funds.

Finally, it's often not simply a question of whether you are ready to retire. If you're married, consider whether your spouse is ready for you to retire. Does he or she share your ideas of how you want to spend your retirement? Many married couples find the first few years of one or both spouse's retirement a period of rough transition. If you haven't discussed your plans with your spouse, you should do so; think through what the repercussions will be, positive and negative, on your roles and your relationship.

Can you afford the retirement you want?

Separate from the issue of whether you're emotionally ready to retire is the question of whether you're financially ready. Simply -- can you afford to do everything you want in retirement? Of course, the answer to this question is anything but simple. It depends on your goals in retirement (i.e., how much the lifestyle you want will cost), the amount of income you can count on, and your personal savings. It also depends on how long a retirement you want to plan for and what your assumptions are regarding future inflation and earnings.

Are You Financially Ready?

Are You Emotionally Ready?	No	Yes
Yes	• Consider delaying retirement • Consider more aggressive (and risky) retirement income strategy • Consider working in retirement • Consider alternate income sources (e.g., downsizing home) • Reevaluate retirement expectations	**Enjoy!**
No	• Consider delaying retirement • Consider continuing work at reduced hours/phased retirement • Implement short-term plan to address financial needs • Reevaluate retirement expectations	• Consider a plan for retirement that addresses emotional needs (e.g., volunteering time, new career) • Consider continuing work at reduced hours/phased retirement • Discuss with spouse

I'm having a hard time selling my home. Should I take out a reverse mortgage?

A reverse mortgage is a loan secured by the equity in your home. With a reverse mortgage, you borrow against the equity you have built up in your home using a mortgage loan. In return, the mortgage lender either gives you a lump sum of cash or pays you a predetermined monthly amount for a fixed number of years or until the house is sold. At the end of that time, you'll owe the mortgage lender the principal and interest due on the house. To repay the loan, you or your estate may have to sell the house or turn it over to the mortgage lender. It's known as a reverse mortgage because unlike a traditional mortgage, the principal balance of the loan gets larger over time, rather than smaller.

Reverse mortgages were developed to assist elderly citizens who own their own homes but need an additional source of income. They work best in situations where homeowners wish to stay in their homes until they die. If you are approaching retirement and are unable to sell your home, a reverse mortgage may be an option for you. However, it can limit your ability to move in the future, because you will need to repay the reverse mortgage from the sale proceeds. In addition, if you are unable to afford or qualify for a refinanced mortgage when the term of the reverse mortgage is up, you may be forced to sell your home. A reverse mortgage also lowers the value of your estate, because it reduces the equity you have built up in your home. This is a disadvantage if you were planning to leave your house as an inheritance for your family.

Congress Passes New Estate Tax Law

by Glenn A. Jarrett, Esq., CFP

In December, Congress passed an extension of the so-called "Bush tax cuts." Those cuts came from a 2001 law that sharply reduced tax rates, but they were scheduled to expire at the end of 2010. Congress acted at the last minute and not only kept the cuts in place, but expanded the estate and gift tax provisions of the tax code even further.

Under the 2001 law, the estate tax exemption increased rapidly from $675,000 in 2001 to $3.5 million in 2009. In 2010, the law eliminated the estate tax for one year. If the 2001 law had expired at the end of 2010, the estate tax would have come back in 2011 with a $1 million exemption. Commentators predicted that Congress would never let the estate tax expire in 2010, but they were proven wrong and Congress waited until the lame duck session in December to take action on the extension.

The December 2010 extension increased the estate tax exemption to $5 million per person. In addition, Congress increased the gift tax exemption from $1 million to $5 million. The law also provided an easier way for married couples to take advantage of both spouses' exemptions, so that a married couple could exempt $10 million from the estate tax. While most people don't have that much in assets, the new law provides much needed flexibility and opportunities for people with more modest assets. For example, if an elder wants to gift his or her house to a child or the children, using the new $5 million exemption from gift tax allows the gift without fear of having to pay gift tax. Vermont does not follow the federal estate tax law. Vermont estates over $2.75 million are subject to estate tax. That amount will increase to $3.5 million in 2012. Thus, Vermonters whose estates are less than $5 million still need to be concerned about the Vermont estate tax. However, Vermont has no gift tax, so the increased federal exemption from gift tax provides Vermont residents with opportunities for lifetime gifting.

The ability of married couples to take advantage of both spouses' exemptions without complicated tax planning is being called "portability." This means that fewer people need to create revocable living trusts for estate tax reasons. However, there are often more compelling reasons to create a living trust, such as family considerations, second marriages, the desire to provide asset protection for the children, and to protect beneficiaries with special needs from losing their government benefits.

Even though planning may be simpler now, it is important to review an existing will or trust and make sure they are up to date. In addition, planning for incapacity is probably more critical than planning for death. If a sudden illness or stroke strikes and the victim no longer has the capacity to make decisions about finances or medical issues, it is crucial to have someone designated to make those decisions. The alternative is a lengthy and expensive guardianship proceeding in probate court.

The new tax law is scheduled to expire at the end of 2012. Congress will be debating another extension to the law in the midst to the next presidential campaign. No one can predict what will happen then, so it is important to stay abreast of the latest developments and review documents with an experienced estate planning attorney.

Glenn Jarrett is the principal of Jarrett Law Office, an estate planning and elder law firm in South Burlington. He is also a Certified Financial Planner practitioner. The lawyers in his firm limit their practice to estate planning, elder law and special needs planning, along with estate and trust administration. Glenn can be reached at glenn@vtelaw.com or (802) 864-5951.