



**PENSION CONSULTANTS
AND PLAN ADMINISTRATORS**

SERVING CLIENTS SINCE 1983

NEWSLETTER ---- DECEMBER 2006

**EGTRRA CHANGES
MADE PERMANENT**

To review the changes on the Pension Protection Act of 2006, click on the following link or copy and paste it into your browser.

<http://www.northwesternwisconsin.com/pdfs/EGTRRA.pdf>

2007 Cost of Living Increases Announced

SOURCE: SUNGARD RELIUS

The IRS has announced the 2007 Cost of Living Adjustments (COLA) related to pension plans. We have listed some of these below.

2007 Amount

401(k) and 401(b) Deferral Limit	\$15,500
401(k), 403 (b), 457 Catch-up Contribution Limit	\$5,000
SIMPLE Deferral Limit	\$10,500
SIMPLE 401(k) and IRA Catch-up Contribution Limit	\$2,500
Annual Compensation Limit	\$225,000
DB 415 Limit	\$180,000
DC 415 Limit	\$45,000
Dollar Limit for HCE	\$100,000
Dollar Limit for Key Employee	\$145,000
Comp Limit for SEP Eligibility	\$500
457 Deferral Limit	\$15,500
S.S. Taxable Wage Base	\$97,500



New playbook on increasing retirement income

Source: Fidelity Research Institute's "Beyond Conventional Wisdom: New Strategies for Lifetime Income"

Many boomers assume that by the time they receive their final paycheck, they will have in place a retirement income strategy. If that strategy is based on conventional wisdom, it probably will be built around tapping 4% of savings annually to cover retirement living expenses.

That's not good enough, maintain analysts at Fidelity Research Institute, a new center focusing on public policy and investment theories. They caution that strategic decisions on income don't stop once an individual leaves the workforce, and retired workers must be knowledgeable about when and in what order to access personal savings, Social Security and other retirement income accounts.

"Understanding when, and to what extent, to tap each income stream could determine whether a person has substantially more money to live on in retirement or whether they outlive their savings," says W. Van Harlow, managing director at FRI, which is funded by Massachusetts-based Fidelity Investments.

Harlow and colleague Steven Feinschreiber, vice president of research at FRI, have issued a report, "Beyond Conventional Wisdom: New Strategies for Lifetime Income," that outlines a host of withdrawal scenarios that stretches retirement income.

"This report shows that when individuals make smart decisions about timing Social Security and implement tax-wise withdrawal strategies from tax-deferred and tax-exempt accounts, they can add five or more years of income power to their total retirement assets," Harlow says.

Tapping Social Security

The retirement situations are based in part on hypothetical financial market return scenarios that determine the sustainable withdrawal rates at different ages. In addition, researchers used a mathematical model to estimate the likelihood of a particular outcome based on historical analysis.

For instance, a couple receiving Social Security payments starting at age 62 and using personal income savings to supplement their income will probably face an "income shortfall" by the time they reach age 84. However, a couple who delays collecting Social Security until age 67 will have an initial Social Security income base of \$48,600 a year, 44% more than the couple who collected at age 62.

"We know many people time their retirement to the date when Social Security payments become available. Without a plan, this can be a costly mistake in the amount of benefits paid over time," Harlow explains.

A worker who decides to take Social Security benefits early at age 62 and lives to 80 can expect \$15,888 in annual retirement income from Social Security with a cumulative amount of \$285,984. By starting Social Security payments four years later, at age 66, annual income increases by 33% to \$21,184, with a cumulative amount of \$402,496 if the person lives to 85, the report indicates.

Similarly, an investor who lives to age 100, and who started to collect Social Security at age 70 as opposed to 62, will receive an annual income of \$28,821, an 81% increase over collecting benefits at age 62, with a cumulative amount of \$864,619.



"Retirees benefit the most when they both delay collecting Social Security and live beyond life expectancy," note Harlow and Feinschreiber. Besides getting their heads around strategic decisions on collecting Social Security, retirees must also consider the financial implications of withdrawing funds from their personal savings and retirement income accounts. "The average American will need to weigh how to withdraw from nine different income sources in retirement, each having a unique tax implication," Harlow observes. "Using a mix strategy of withdrawing the right amount of assets from tax-deferred and tax-exempt accounts, our hypothetical couple could save more than \$5,000 in annual taxes by keeping them below the exclusion ceiling."

A tax-wise withdrawal strategy that mixes income from tax-exempt and tax-deferred savings accounts may ensure that Social Security income is either not taxable at all or is taxed at a lower rate, the report explains. It also highlights that "large withdrawals need to be managed as tax-efficiently as possible," and recommends "withdrawing assets from tax-deferred accounts and paying taxes before the money is needed." Harlow and Feinschreiber argue the strategy can outweigh the benefits of a tax-deferral for short periods of time.

The report's authors acknowledge that their basic guidelines are not a one-size-fits-all approach to retirement financial planning, and retirees should always seek out tax and financial advisors for specific situations and goals. Yet Harlow and Feinschreiber do believe that their strategies can generate income for Americans who are looking for a fulfilling retirement.

Designing Retirement Income Strategies

Retirees should carefully assess the timing of their decision to begin collecting Social Security or the payment stream from a defined benefit plan. They should understand the potential benefits to their portfolio's longevity by giving up income from these sources in the "early" years of their retirement. They should also consider guaranteed income products that can further enhance their lifelong income "base."

Retirees who decide to delay collecting Social Security or defined benefits income, and also possibly convert some assets to guaranteed future income, may be able to draw down substantially more funds from their assets in early years of retirement than "sustainable" withdrawal guidelines may suggest. Retirees will be able to reduce their withdrawal rates once the lifelong guaranteed income sources they have delayed kick in.

Retirees should carefully consider the order or "hierarchy" of accounts from which they choose to draw retirement income. Drawing from assets in an uninformed or "basic" order may result in substantial, and avoidable, additional tax costs.

While there is a generally reliable withdrawal order that applies in most cases, some retirees may be positioned to save on taxes by breaking with this conventional wisdom, for example by mixing withdrawals from tax-exempt and tax-deferred assets. Retirees should consult a tax and/or financial advisor on whether such tax-minimizing tactics may work for their particular situation.

Retirees should also be aware that income draw-downs can impact their overall asset allocation. They should regularly check their total portfolio and rebalance if necessary to sustain a mix of stocks, bonds and cash that is appropriate for their age and risk-tolerance.

Finally, a retirement income plan should be flexible so that it can be changed as a retiree's own circumstances change.



Surveys show new perspective on retirement savings

BenefitNews Connect • November 14, 2006

Employees are depending more on their income for savings and less on outside funds once considered the foundations of retirement.

A recent survey by Brown & Tedstrom indicates only 43% of respondents expect to receive retirement income from company and government pensions, which are perceived as uncertain.

Meanwhile, a new survey by the Retirement Corporation of America shows that only 23% of workers will look to Social Security as their primary source of income during retirement. While 59% of workers believe they are likely to reach their savings goal, 31% feel their savings, mutual funds, or IRAs will be their primary source of income in retirement. Seventy percent regularly save or invest some of their income, but just 38% say the amount they are saving or investing will be enough for retirement, RCA reports.

Traditional retirement beliefs and expectations are changing in other ways, too. Roughly 54% of employees expect to continue working past retirement, yet only 13% are concerned about it, says Brown & Tedstrom. The majority, 71%, of workers over 45 years old are saving for retirement, but it appears they are interested in remaining in the workforce well past age 65.

"Notions that people once considered mainstays of their financial plan, such as inheritance, pensions, Social Security and retiring at 65, are no longer expected, much less guaranteed," observes Peter Tedstrom, a partner at Brown & Tedstrom.

While these results show investors are saving and carefully considering what it takes to retire comfortably, many may be missing some key components of future expenses. Sixty-two percent of 45- to 64-year-olds have not factored long-term care into their retirement plan, Brown & Tedstrom reports.

WHAT'S GOING ON IN OUR OFFICE

Please note our office will be closed on the following days for the holidays:

December 25 - 26

January 1

To view this newsletter and past issues visit us on the web at www.northwesternwisconsin.com under the News and Information section