



Chesapeake Retirement Solutions, LLC

Stephen Bailey
Attorney

1819 Landrake Road
Towson, MD 21204
410-830-9415

Fax: 410-384-4236
info@ChesapeakeRetirement.com
www.ChesapeakeRetirement.com

Hi Everyone,

Thanks so much for all the great feedback on last month's newsletter. I'm especially grateful to all of you who forwarded the newsletter to someone else who could benefit from the information.

Referrals and word of mouth highlighting the unique services that I offer my clients are the key to success. Please keep me in mind when you hear someone talking about their aging parent or grandparent.

Even though my long term goal is to have a successful consulting, estate, and elder law practice, a challenging economy requires a willingness to be agile. I am accepting cases in all practice areas as well as consulting on senior housing and elder care options.

Here's hoping that we see the sun before Spring is over and Summer is upon us.

In this issue:

Social Security: Late Retirement Boosts Benefits

Income Annuities Can Help Fill the Retirement Income Gap

Retiring Early? Don't Forget about Health Insurance

Can I open a 529 account in anticipation of my future grandchild?

Social Security: Late Retirement Boosts Benefits

If your retirement savings have taken a beating, you may be wondering how you will make up a monthly retirement shortfall. One option might be to delay receiving Social Security benefits. Although you can receive retirement benefits as early as age 62, the longer you put off retirement, the larger your monthly benefit check will be.

When can you retire?

How much you'll receive from Social Security every month depends mainly on how old you are when you begin receiving benefits and on your lifetime earnings. Your full retirement age is 65 to 67, depending on the year you were born. The Social Security Administration calculates your base benefit--the amount you'll receive at full retirement age--using a formula that takes into account your 35 highest earnings years.



If you begin receiving benefits earlier, you'll receive less than you would at full retirement age. If you begin receiving Social Security benefits at age 62, each monthly check you receive will be 25% to 30% less than it would be if you waited until full retirement age.

If you begin receiving benefits later than full retirement age, you'll receive more than you would receive at full retirement age, because you'll earn delayed retirement credits for each month you postpone retirement up until age 70. Delayed retirement credits will increase the amount you receive by 7% annually if you were born in 1939 or 1940, 7.5% if you were born in 1941 or 1942, or 8% if you were born in 1943 or later.

Retirement benefit illustration

The following chart illustrates how the age you begin receiving benefits can greatly affect the amount of income you receive from Social Security every month. The chart assumes a

full retirement age of 66, and a base benefit at full retirement age of \$2,000 (which is nearly the maximum Social Security benefit an individual can receive).

Social Security Retirement Benefit



In this hypothetical example (your individual situation will be different), the Social Security benefit available at age 62 is \$1,500, which is 25% less than the \$2,000 monthly benefit available at full retirement age. But at age 70, the benefit available is \$2,640, which is 32% more than the monthly benefit available at full retirement age, due to delayed retirement credits. Keep in mind, too, that other factors, including post-retirement earnings and cost-of-living increases, can also affect your monthly benefit check.

You can explore various retirement benefit scenarios by using the Retirement Estimator, or one of the other benefit calculators available at the Social Security Administration's website, www.ssa.gov.

There's no right or wrong time to begin receiving Social Security retirement benefits, and you should determine how retiring at a certain age affects your overall lifetime income, as well as your monthly income. How long retirement is likely to last, the effect on your spouse's income, and your tax situation are also considerations when deciding when to retire.

Income Annuities Can Help Fill the Retirement Income Gap



Annuity guarantees are subject to the claims-paying ability of the annuity issuer.



If you're like many retirees, you may find that your sources of fixed retirement income, such as employer or military pensions and Social Security, aren't enough to meet all of your retirement income needs. To make up the difference, you can draw from your savings and investments, but how much can you safely withdraw without running out of money? One option is to create a stream of income for the rest of your life by investing some of your savings in an income annuity.

Income annuities (also known as immediate annuities) are purchased from insurance companies. In exchange for a lump sum of money, the issuer promises to make payments to you for a fixed period of time or for the rest of your life, or for the rest of your life and that of your spouse.

You can use almost any type of savings or investments to create a stream of income that can last for your lifetime. For example, you can purchase an income annuity with money from your personal savings accounts, matured CDs, or investments such as stocks, bonds, and mutual funds. You can even convert a portion of your retirement plan, such as an IRA or 401(k), to a lifetime stream of income by purchasing an income annuity within the retirement plan. However, some of these transactions may have income tax implications, so consult your tax advisor before you proceed.

You have options

You generally can choose how long your income annuity payments will last. For example, you can choose to receive payments for the rest of your life. This option allows you to supplement lifetime income from other sources, such as Social Security. However, payments end at your death, providing no benefits to your surviving spouse or heirs.

To ensure that your spouse continues to receive income after your death, you can select a joint and survivor payment option. The annuity will make payments to you, then at your death, to your surviving spouse until his or her death. Payments end at the death of the surviving spouse, with no benefits payable to your heirs.

You also can choose to receive income payments for a fixed period of time, such as 5 or 10 years, by setting up an income annuity. If you die during the payment period, your

beneficiary will receive the remainder of the payments, either systematically or in a lump sum.

Another choice combines lifetime payments with the fixed period option. Payments are made for life or for a fixed period of time, whichever is longer. This alternative makes certain that payments will last for a minimum number of years.

Other factors to consider

- Payments from income annuities funded with pretax dollars, such as 401(k)s and IRAs, may be subject to income tax. Income annuities purchased with after-tax funds are taxed only on the earnings part of each payment. The remaining portion is considered a return of your investment and is not subject to taxation.
- Usually, once you select a payment option, you can't change it. This means you may not have access to any of the funds you used to purchase the income annuity aside from the income payments you receive.
- Since some payment choices, such as the life or the joint and survivor life options, end at death, it's possible you won't live long enough to receive at least the return of your investment in the income annuity.
- Fixed income annuity payments don't change, even if your income requirements do. You may find that the income from the annuity isn't enough to meet increased income needs.
- Choose a financially strong company. Annuity guarantees are entirely dependent on the insurance company's financial ability to meet its obligations. Check the financial ratings of the company offering the income annuity before making your purchase.

Is an income annuity right for you?

Consider an income annuity if you want a guaranteed income to fill the gap between your retirement income needs and your fixed retirement income. Also be sure you can buy the income annuity and still have enough savings for other expenses.

Retiring Early? Don't Forget about Health Insurance

Thinking about retiring early? As part of the decision, you've got to calculate whether you'll have enough retirement income to meet your needs. While adding up the costs of customary living expenses, utilities, and an occasional vacation, don't forget to include another important retirement expense: health insurance.

We're living longer and health-care costs are surging. Unless you qualify for Medicare (you must be at least 65 for coverage) or you're very wealthy, you probably can't afford to go without health insurance. And, unless you're lucky, you probably can't rely on your former employer for coverage, since few companies offer retiree health-care benefits. Underestimating the impact of medical costs could significantly hamper your plans for a comfortable retirement.

What are some of your options?

Check out your working spouse's insurance to see if you can be added to his or her policy. But adding you as an insured likely will increase the premium cost to your spouse.

Ask your employer if it's possible to remain covered under its group plan. Usually, plans don't extend coverage beyond active employees and their dependents. But, it's sometimes possible to remain covered, though you'll probably have to reimburse your employer for the cost to keep you on the plan.

COBRA may be another option allowing you to remain covered under your employer's group health plan. If your retirement causes you to lose your health insurance, you can remain on your employer's plan for a maximum of 18 months (with some exceptions). You'll have to pay the entire premium amount, plus a possible 2% administrative fee. And keep in mind that employers with fewer than 20 employees don't have to offer COBRA, so it might not be available.

Shop for individual coverage

If you're going to buy an individual health insurance policy, you may find the premium cost to be quite steep, especially if you're also insuring your spouse and dependents. And there's no guarantee you'll even receive coverage. In most states, insurance companies can examine your health history

and medical records (called underwriting) in order to determine whether you qualify for insurance and at what cost. However, a few states do not allow underwriting for health insurance plans.

Saving a few premium pennies

Here are a few suggestions that might help you lower the cost of individual health insurance. Group rates are usually less expensive, so look for health insurance plans offered by trade associations or churches. Be aware that while coverage might cost less, you may have to pay a membership or association fee to the group offering the coverage. Also, the plan may have high deductibles and co-payments, and the benefits and options, including your choice of physicians and medical facilities, may be limited.

To lower premium costs, consider increasing your deductibles. By shouldering the cost of any treatment you might need, you'll decrease your premium expense.

Also, in states that allow underwriting, the cost of an individual policy of health insurance is based, in part, on your age and health. A preexisting medical condition could affect your premium or even cause you to be denied coverage. So before applying for new health insurance, consider getting in better shape, especially if you think you're a little overweight. Smoking is also a ticket to a higher premium, so quit if you can. Since the insurance company will examine your medical records, review them first with your doctor to remove any inaccuracies, and to clarify the reasons for examinations or treatments.

Finally, if you're denied coverage because of poor health, don't despair; you may still be able to get insurance if your state sponsors a high risk pool. If your state does, you can't be denied coverage, so long as you can show you aren't able to get insurance elsewhere. Be aware, however, that coverage might not be as comprehensive as other options, you may have a six-month or longer waiting period, and not all states offer this type of health insurance.

Unless you qualify for Medicare (you must be at least 65 for coverage) or you're very wealthy, you probably can't afford to go without health insurance.



Retiree health benefits

In 2008, only 31% of large employers (200 or more employees) offered retiree health benefits, while a mere 4% of small employers (3 to 199 employees) offered retiree health benefits.

Source: Employer Health Benefits 2008 Annual Survey. Kaiser Family Foundation.





Chesapeake Retirement Solutions, LLC
Stephen Bailey
Attorney
1819 Landrake Road
Towson, MD 21204
410-830-9415
Fax: 410-384-4236
info@ChesapeakeRetirement.com
www.ChesapeakeRetirement.com

Legal Disclaimer: None of the information set forth in the foregoing materials is intended for use without professional advice. The information is intended to afford general guidelines on matters of interest and may not be suitable or appropriate for your particular situation. Chesapeake Retirement Solutions provides professional legal and elder care consulting advice only after a retainer agreement is signed by the client and an authorized representative of Chesapeake Retirement Solutions, LLC. Accordingly, the information in the foregoing materials is not intended to serve as and does not constitute legal, tax, accounting, or financial planning advice. All readers are encouraged to consult with professional advisors concerning specific matters before making any decisions. No part of this presentation may be reproduced in any format without the prior written authorization of Chesapeake Retirement Solutions, LLC. Chesapeake Retirement Solutions does not offer specific tax, accounting, or financial advice. Please consult your accounting, tax, or financial planning specialist or ask us for a referral.

Prepared by Forefield Inc,
Copyright 2009

Ask the Experts



Can I open a 529 account in anticipation of my future grandchild?

No, not if you intend to name your future grandchild as beneficiary. A valid 529 beneficiary has to have a Social Security number, so it's not possible to name a child who hasn't been born. But there is a way to open a 529 account that eventually can be turned over to a future grandchild.

Your first step is to open a 529 account and name a beneficiary who is a "family member" of your future grandchild. Then, when your grandchild is born, you, as account owner, can change the beneficiary to your grandchild. All 529 plans have mechanisms in place for changing the beneficiary.

According to IRS Publication 970, Tax Benefits for Education, there are no income tax consequences if the beneficiary of a 529 plan account is changed to a "family member" of the original beneficiary. This includes the beneficiary's (1) spouse, (2) son, daughter, stepchild, foster child, adopted child or

descendant of any of them, (3) sibling or step-sibling, (4) parent or ancestor of either, (5) step-parent, (6) niece or nephew, (7) aunt or uncle, (8) daughter-in-law, son-in-law, mother-in-law, father-in-law, sister-in-law, or brother-in-law, (9) the spouse of any person listed, and (10) first cousin. Changing the beneficiary could have gift tax consequences, though.

However, carefully check the details of any 529 plan you're considering before you name the initial beneficiary. Some plans impose age restrictions on the beneficiary, such as requiring that the beneficiary be under age 21. Such a restriction could pose a problem if you intend to name your adult son or daughter as the initial beneficiary.

Other plans may have rules that indirectly impact who you can choose as your initial beneficiary, such as a requirement that the funds in the account be spent within 10 years of when the initial beneficiary would be expected to enter college. You don't want to be surprised by a technicality.

Can more than one 529 plan account be opened for the same beneficiary?



Yes. You (or anyone else) can open multiple 529 accounts for the same beneficiary, provided you do so under different 529 plans.

For example, you could open three 529 college savings plan accounts for your daughter: one in State A, one in State B, and one in State C. Similarly, you could open accounts in States A and B for your daughter, and another relative could open an account for her in State C. Or, you could open a 529 college savings plan account and a 529 prepaid tuition plan account for your daughter in State A. But you can't open two college savings plan accounts (or two prepaid tuition plan accounts) in State A for the same beneficiary.

If you do open multiple 529 accounts for the same beneficiary, keep in mind that each plan has its own contribution limit, and contributions can't be made after the limit is reached.

However, some states consider the accounts in other states to determine whether the limit has been reached. For these states, the total balance of all plans (in all states) can't exceed the current year's maximum contribution amount.

Also, keep in mind that each 529 plan will have its own investment options and flexibility, contribution rules, ownership and beneficiary designation rules, costs and fees, and ability to perform account management tasks online.

Note: *Investors should consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing. More information about 529 plans is available in each issuer's official statement, which should be read carefully before investing. Also, before investing, consider whether your state offers a 529 plan that provides residents with favorable state tax benefits.*