The Impact of Longevity on Retirement Planning

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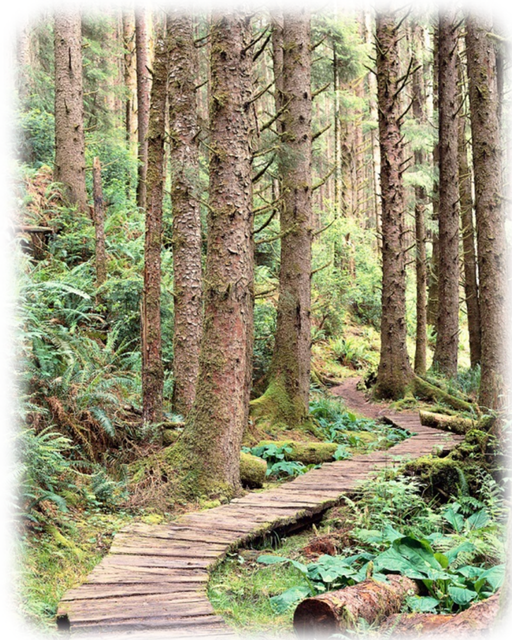

One of the great achievements of the past 30 years has been the dramatic increase in longevity for Americans. Advances in health care and the treatment of chronic conditions have us living much longer than previous generations. One consequence is the need for financial resources and health care for much longer periods of time after retiring from the work force. As our government becomes more and more over-committed, many of us realize the need to provide for ourselves – not depending on the government or our children.

We often see a fear among our older clients that they will outlive their assets. Given the increase in longevity, it is a fear that is well-founded and comprised of two parts. The first is the need for financial security, and the second is for long term care during incapacity. The recent increases in the federal income tax are just the most recent obstacles in addressing these concerns. Now, those trying to build financial resources to mitigate these issues face:

- Federal income tax and capital gains rates for top earners at 39.6% and 20% respectively plus the impact of state income and capital gains taxes, and
- A 3.8% net investment income tax.

These higher rates of taxation make specially designed life insurance solutions a more attractive asset because of the potential for tax-deferred growth of cash values leading up to retirement. When needed, those values can be accessed to provide cash through withdrawals or policy loans. This approach requires a careful design of the insurance policy to preserve the tax benefits of the insurance.

This type of solution can also accumulate values to provide for long term care needs. Local nursing home costs can exceed $80,000 per year with in-home care far exceeding that. These costs are increasing every year – compounding the challenge. Life insurance policies can be designed in a tax-efficient manner as a hedge against this ever-increasing expense.

Of course, there is also the appeal of an income tax-free death benefit for the insured's family. Building assets in this way could provide the cash needed to allow you to hold other highly appreciating assets until death – eliminating a capital gains tax. Holding assets until death allows your family to gain a step-up in income tax basis, and any residual death benefit can help fund any remaining estate tax liability.

Tax-deferred growth and distributions, long term care protection, AND death benefit protection can be a powerful combination of benefits. As we all can expect to live longer, planning for additional cash flow in retirement should be an important objective.

Let us know if we can help you think through the issues.