Retirement Planning

It's really never too early – or too late – to plan for your retirement.

On the one hand, the younger you are, the more you benefit from a longer period of time to accumulate assets and invest them, as well as think about how best to spend them once you finally retire. Even if you make some mistakes in the process or become preoccupied with other matters for a year or two, time will generally be your friend.

If, on the other hand, you'll soon be retiring or have perhaps retired already, you'll want to use the time and resources you have wisely. Still, with a few adjustments here and there, you may well be able to make your retirement years more enjoyable.

Whatever your circumstances, be sure to consult professionals with expertise in areas such as:

- investments
- taxes
- budgeting and cash management
- various types of insurance
- estate planning
- medical, social, and other services geared toward older persons

Keeping all of this in mind, we offer a list of items to consider. ***Don't forget to check out number 5 near the end of the list.***

1. **Determine how you'd like to spend your retirement years.** Although many people travel, devote more attention to family and friends, increase their volunteer involvement, or concentrate on hobbies and leisure activities, you should feel free to settle on your own mix of passions and pastimes. Just remember that retirement can have several phases as you age, so allow for both the development of new interests, as well as the possible need to accommodate eventual changes in health and mobility.

2. **Try to get a good sense of what your desired lifestyle will cost.** In large measure, this will be a function not only of what you want to do, but also where you live – both the part of the country (or the world) in which you choose to settle and the nature of the four walls you'll be calling home. Recognize too that you might not necessarily live in the same place throughout retirement. Moreover, continue to budget for things that are current elements of your life, such as personal and health care expenses, food, clothing,

transportation, emergencies, and inflation.

3. **Save as much as you reasonably can and invest appropriately.** If you have a modest lifestyle in mind for your retirement, it is possible to "over-save." Yet people often underestimate – sometimes significantly – what their desired lifestyle will cost. Others may be quite realistic about what they will need but have difficulty putting enough aside over the years – or fail to manage responsibly whatever wealth they have been able to amass. Whatever your situation, building your nest egg should be a high priority.

4. T**o the extent possible, maximize the financial resources you can draw upon in retirement.** A number of options exist, among them:

Defined-benefit pensions – These are "traditional pensions." Even though fewer and fewer workers have this perk, it is quite a valuable one, as your employer covers the full cost and what you receive will usually be very reliable, hence the term "defined-benefit." Payments are fully taxable as ordinary income.

Defined-contribution plans – These are sponsored by employers and generally take the form of so-called qualified retirement plans, such as 401(k) and 403(b) plans, or some types of IRAs, such as SEP and SIMPLE IRAs. These plans feature limits on how much can go into them each year and are typically funded with some combination of contributions made by your employer and pre-tax portions of your salary or wages. Account balances grow tax-free, but distributions are fully taxable as ordinary income.

Traditional IRAs – Depending on your level of income, traditional IRAs can be funded with your own pre-tax money or, less commonly, after-tax money. Traditional IRAs can also receive money "rolled over" on a tax-free basis from employer-sponsored plans, such as 401(k) plans. Account balances grow tax-free. When distributions from a traditional IRA are taken, they will be taxable as ordinary income in proportion to the amount of pre-tax money you contributed or rolled over.

Roth IRAs – These, too, are funded with your own money, specifically after-tax dollars. This means that both earnings and distributions come out tax-free. Also, whatever remains in the account grows tax-free. Note: Some employers offer Roth 401(k) plans, although these are relatively rare.

Tax-deferred annuities – As the name suggests, after-tax money of your own that you invest in these products grows tax-free. Any increase in value beyond the amount you invested is taxable as ordinary income when distributed.

Individually owned savings and investment accounts, certificates of deposit, etc. – These are funded with after-tax dollars, plus whatever you earn is taxable. Some of these investments produce capital gains, which are generally taxed more favorably than interest and other sorts of ordinary income.

Employment – For some people, "retirement" means continuing to work a bit longer, albeit on a part-time basis. Similarly, working full time for an extra year or two can make additional assets available for use in connection with one or more of the options above.

Social security benefits – Despite concerns about the long-run health of the social security system and the size of benefits one can count on, this extremely common form of retirement cash flow definitely needs to be considered.

Non-financial assets – Anything that saves you money can be just as valuable as a stream of payments. Examples would include good health, smart purchasing, and having loved ones nearby and available to help when needed.

Regardless of the combination of options you assemble and draw upon, be sure to seek competent professional guidance, as investment challenges can be considerable and tax rules
can be complex and subject to change. For instance, decisions about things such as when to begin drawing social security payments or whether to roll retirement plan assets into an IRA will require careful planning.

5. **Don't overlook ways to support Bentley that result in retirement cash flow.** There are a variety of ways to make a gift to Bentley and create cash flow or otherwise increase cash available to you in retirement.

For example, a charitable life income plan can be an attractive supplement to existing arrangements, especially if you are precluded from making additional contributions to your IRA or qualified retirement plan:

- A **charitable gift annuity** makes fixed, favorably-taxed payments to you (or to you and your spouse) for life, plus you receive an immediate income tax charitable deduction, providing tax savings if you itemize. If you're still working, you can defer the start of the payments, whereas if you are retired, you'll likely want the payments to begin immediately.
- A **charitable remainder unitrust** is similar to a gift annuity in some respects, since both can provide income for life and an immediate income tax charitable deduction, but offers greater flexibility in several ways. For example, income is variable, with the potential to increase over time. Plus, payments can be planned for life, for a certain number of years, or a combination of the two.

These types of gifts provide income tax benefits, freeing up cash available to you:

- You can deed a personal residence – including a vacation home – to Bentley subject to a **retained life estate**. This arrangement enables you (or you and your spouse) to continue living in your home or using your property as long as you wish. The older you are, the larger the immediate income tax charitable deduction you receive.

- If you are age 70½ or older, you can make a Qualified Charitable Distribution (QCD), also known as a charitable IRA rollover, to Bentley directly from your traditional or Roth IRA of up to $100,000 per year, and the gift will not be counted in your income. Once you are 72 or older a QCD will satisfy your annual minimum required distribution. and permit a tax-free gift of up to $100,000 to Bentley. Separately, drawing on assets in an IRA or a qualified retirement plan to make current gifts to Bentley can sometimes make sense for anyone over age 59½, although careful planning is required.

6. **Gifts made by beneficiary designation are an easy and tax-smart way to support Bentley.** Because retirement planning vehicles such as defined-contribution plans, tax-deferred annuities, and many IRAs contain income that has never been taxed, you'll want to devote attention to your **beneficiary designations**. Previously untaxed amounts left to family members and other non-spouse individuals will be taxed when received by them but are not subject to tax when received by Bentley. Likewise, tax savings can be combined with providing for heirs when certain retirement plan assets are used to fund a gift annuity or a charitable remainder trust at your passing.

Now that we've given you plenty to think about, please let us know if we can be of any assistance to you and your advisors.

NEXT STEPS:

To receive further information about retirement planning, or to learn more about how your gift can help Bentley, please contact Liz Siladi, Director of Gift Planning and Senior Philanthropic Advisor, or Kris Otto, Associate Director of Gift Planning.

- call **Liz at 781-891-2475 or Kris at 781-891-2586**
- email **Liz at esiladi@bentley.edu or Kris at kotto@bentley.edu**

* We are pleased to provide this information to you; however, it should not be considered professional advice. We encourage you to contact your own legal and/or tax advisor(s) for applicability to your personal circumstances.

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