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You may need less retirement income than you think

New research calls the venerable 80% income-replacement rule into question

MarketWatch

By Robert Powell December 2015

New research indicates that retirees—especially in higher income brackets—might need to replace less of their pre-retirement income than they think.

Financial planners have long suggested that individuals replace 80% of their income in retirement from various sources to maintain the same standard of living they had while working.

But in a recent article in Research magazine, Michael Finke, a professor at Texas Tech University in Lubbock, notes that the rule doesn't necessarily reflect how a person's income grows while he or she is working — nor how expenses change and even decline in retirement. What's more, the guideline focuses on gross income rather than take-home pay.

Consider: In retirement, you likely no longer contribute to social security medicare and your retirement account. That means your replacement rate is down to no more than 77% of your final year's salary — or 60% or less if you use average lifetime income, Finke says.

If you subtract other expenses — commuting and a lower federal income-tax bill (assuming you're in a lower tax bracket in retirement than you were in your working years) — the replacement rate falls lower still.

"The 80% rule is wrong because it's too simplistic," Finke says. "Most of us don't want to replace our gross income. We want to replace our paycheck."

The guideline, he adds, is especially distorted for high-income Americans.

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“The highest 20% of earners aren’t even spending half of their gross income,” he says. “So if you think they need 80% of their gross income, then they’d have to spend more in retirement than they’d ever spent during their working years — and this doesn’t sound like a good life plan.”

So, what’s a better way to figure out how much income you need?

First, if you’re at, or very near, retirement, you can use your actual target consumption, says David Blanchett, head of retirement research at Morningstar Investment Management, a wholly owned subsidiary of the Chicago-based fund-research company Morningstar Inc. For those still several years or more from leaving the office, the key is pinpointing what specific expenses will change at retirement and adjusting one’s replacement rate accordingly. “A household that is saving 20% of their pay, for example, in a 401(k) needs to replace a lower percentage of their final pay than one saving only 5% because they are used to living off less,” Blanchett says.

Finke adds: “Most of the wealthiest retirees don’t spend down their money at all. This means that if they didn’t want to give it to their kids they could have had a lot more fun when they were younger.”

Robert Powell is the editor of Retirement Weekly, a service of MarketWatch.com. Email him at reports@wsj.com.

The story “How much retirement income will you need? Maybe less than you think” first appeared on WSJ.com.

What Happens to Retirement Accounts if a Spouse Dies?

By Tim Parker | December 07, 2015 |

When thinking about retirement funds, you’re probably most worried about having enough money to live comfortably. What people forget to plan for is their eventual passing. For the sake of your spouse or other family members, make sure things are set up correctly. It’s not enough to just make the money; you have to protect it as well – and ensure it gets into the right hands after your death.

IRA

IRAs generally are not covered in your will. So, when you open an IRA, you should complete a beneficiary designation form. This form names the person or persons who will receive your IRA and in what proportions. You can amend the form at any time, but whoever is on the form upon your death will receive the funds – even if they are are an ex-spouse or a disinherited child.

Your beneficiary has five options:

1. Keep the inherited IRA: This is a good option if the deceased had already started taking required minimum distributions (RMDs) from the account. As a bequest, it allows your beneficiary to withdraw those funds too, even if he or she is younger than age 59½, without having to pay the usual 10% early withdrawal penalty. The RMDs continue to be based on the deceased person’s age rather than the beneficiary's, unless the beneficiary submits a new schedule, based on his or her age. Important: If the IRA you inherit is a Roth, you have to take RMDs even though the deceased wasn't required to take them; rules are different for beneficiaries than participants. See *Deadlines You Must Meet If You Inherit A Retirement Account* . These withdrawals are subject to income taxes. See *The Rules on RMDs for IRA Beneficiaries*.

2. Roll over the IRA: Take the assets and roll them into in a personal IRA – either a new one or a pre-existing one – without paying income tax or early-withdrawal penalties (unless you are under age 59½ when you take a distribution). If you roll over an inherited Roth IRA, you do not pay penalties if the assets have been in the account for five years. This rollover option is only open to a surviving spouse, and he or she must transfer to the same account type – Traditional IRA to a Traditional IRA or to Roth to Roth IRA.

3. Convert to a Roth IRA: If you anticipate being in a higher tax bracket later in life, it might be advantageous to convert a traditional IRA into a new Roth IRA account. Be aware that you will pay all applicable income taxes at this time, but down the road you won't owe any more taxes or have to take RMDs.

4. Disclaim all or part of the assets: Basically, give up any and all claim to the funds, which then go to the other beneficiaries mentioned in the designation form.

5. Take the money: Cash out the IRA. If you’re younger than 59½, a 10% early withdrawal penalty may apply. You will pay all applicable taxes at that time and it may push you into a higher tax bracket. If the IRA is sizable, speak to a financial advisor about tax efficient ways to cash out.

401(k) Plan

Things are slightly different with your 401(k). You will still complete a form that designates who will receive your benefits when you pass away. However, if you're married, the law says that your spouse will receive the account. Even if you've been legally separated for years and now live with somebody else, your spouse is entitled to the account upon your death.The only way that can change is if your spouse signs a document giving up his or her rights as a beneficiary. Divorce settlements generally include provisions for whether ex-spouses are entitled to any 401(k) money, in keeping with the rules of each spouse's plan (see *Divorcing? The Right Way to Split Retirement Plans*).

If you're single, the people named on your beneficiary form receive the account.

The recipient's options with a 401(k) are the basically same as with an IRA: Keep it, roll it over somehow, cash it out or decline to receive it.

Estate Taxes

Any time the topics of assets and death arise, the subject of estate taxes should come up. If you were to pass away in 2015, your beneficiaries won't be affected by federal taxes if the total value of your estate is less than $5.43 million. If it exceeds that amount, talk to an estate lawyer or tax attorney as soon as possible to discuss strategies for legally sheltering assets. It may involve strategies such as setting up a trust. See *4 Ways To Minimize Estate Taxes.*

Social Security

Social Security will pay a one-time death benefit of $255 to your spouse if he or she has been living in the same house with you. If there is no spouse, the worker's child or children can receive the benefit. They must apply for this payment within two years of your death. Other rules may affect their eligibility.

Then, there are survivor benefits. People think of Social Security as a pension during retirement, but some of the money you pay into the system could later serve, in effect, as a life insurance policy for your heirs. The same credits that entitle you to your own benefits also entitle certain people to survivor benefits – your spouse, a divorced spouse, children or dependent parents. Spouses can receive full survivor benefits once they reach their full retirement age, between 66 and 67, depending on their birth year. They may be able to receive some payouts earlier, if certain conditions apply.

According to the Social Security Administration, 98 out of every 100 children could get benefits if a working parent dies. Your unmarried offspring can receive benefits up to age 18 or 19 if they're still attending elementary or secondary school full time. If they were disabled before the age of 22 and remain disabled, they can receive benefits at any time. Stepchildren, grandchildren, step-grandchildren or adopted children can receive benefits under certain circumstances.

Divorced spouses can receive benefits if the marriage lasted at least 10 years, or if they're caring for your child under the age of 16 or disabled. The child must be your former spouse's natural or legally adopted child.

Like your own payouts, the size of survivor benefits depends on your average lifetime earnings. Naturally, the more money you made, the larger the payments to your spouse. In general, a person can only receive one benefit at a time. Widows and widowers have the option of collecting their survivor benefits first, then switching to their own benefit at a later date if that is higher. (For example, your surviving spouse could wait until 70 to switch to her/her individual benefit if that is higher than the survivor payment.) When a surviving spouse retires, Social Security will always pay an individual's personal benefits first. If his or her survival benefits are higher than the personal benefits, that person gets a combination of benefits, in a sum equal to that of those larger survival benefits.

The rules for survivor benefits are very complicated. They're so complicated that Social Security requires that you speak to a representative to receive them. For a quick rundown on benefits, see *When Do Social Security Benefits Start and End?*

The Bottom Line

Nobody likes to think about his or her death. But for the sake of your loved ones, take time now to arrange your accounts, making sure the proper plans and beneficiary designations are in place. If you're married, talk to your spouse about organizing her or her funds so that you are mutually protected. You worked hard for the money – now make it easy for your survivors to access it.

Obamacare enrollees face higher premiums next year

By ROBERT KING • 12/16/15

Obamacare enrollees will pay more next year, as new data found a roughly 10 percent increase on all types of marketplace plans.

The Robert Wood Johnson Foundation released datasets on average premiums for 2015 and 2016 on Wednesday. The data showed that every tier of Obamacare plans — bronze, silver and gold — raised average premiums by about 10 percent in 2016 from 2015.

Gold plans had the largest increase with 11 percent, while bronze came in with 10 percent and silver with just under 10 percent, the foundation data shows.

Even with smaller ‘donut hole,’ Medicare cancer pill costs stay high

BY LISA RAPAPORT

(Reuters Health) - Seniors insured by Medicare may still face high out-of-pocket costs for oral cancer medicines even after the government health program scales back a coverage gap known as the donut hole, a U.S. study suggests.

To assess how changes in the Medicare drug plan known as Part D might impact patients, researchers compared benefits available in 2010 to the coverage set to take effect in 2020 and estimated how out-of-pocket costs for cancer pills could change under different prescription pricing scenarios.

In 2010, the donut hole kicked in once drug spending reached $2,960 and required patients to shoulder 100 percent of costs out-of-pocket until their expenses reached $4,700. Starting in 2020, patients will only need to pay 25 percent of costs out-of-pocket when the donut hole takes effect, and drugs will be half off.

With these changes, many Medicare patients would save at least $2,550 for a course of cancer therapy. But that could still leave them with out-of-pocket costs of approximately $4,000 to $10,000 for their cancer pills, said study co-author Stacie Dusetzina, a researcher in pharmacy and public health at the University of North Carolina at Chapel Hill.

“While closing the donut hole is beneficial for many individuals who obtain prescription drugs through Medicare Part D, the benefit doesn’t work for people using high cost drugs, like oral anti-cancer therapies,” Dusetzina said by email.

In addition, the higher prices don’t necessarily equate to longer lives for cancer patients, Dusetzina added.

“Many of the orally-administered chemotherapies provide little benefit over existing therapies or have no improvements in overall survival,” Dusetzina said.

To see how coverage changes might influence out-of-pocket costs, Dusetzina and co-author Nancy Keating of Harvard Medical School and Brigham and Women’s Hospital in Boston analyzed 2014 Medicare data for stand-alone Part D plans as well as prescription coverage provided by private insurers through a program known as Medicare Advantage.

They looked at median out-of-pocket costs, meaning half of patients paid more and half less, for 23 oral cancer drugs. The analysis didn’t include subsidies for low-income patients.

In 2010, the median annual out-of-pocket costs for a typical treatment course ranged from $6,456 for the skin cancer pill dabrafenib (Tafinlar) to $12,160 for sunitinib (Sutent) to treat tumors in the kidney, pancreas and gastrointestinal tract.

With the assumption that prices remain stable, once the donut hole shrinks, patients may spend approximately $2,550 less, the researchers report in the Journal of Clinical Oncology.

One limitation of the study, the authors concede, is that they estimated use of only a single drug for each beneficiary, even though many patients take additional medications aside from cancer therapies. It’s also possible that benefits or factors influencing drug prices might change by 2020.

Prices, however, are unlikely to remain constant, said Dr. Peter Bach, director of the Center for Health Policy and Outcomes at Memorial Sloan Kettering Cancer Center in New York.

“Price inflation is possible on oral cancer drugs because there is no downward pressure on price; instead there is mandatory formulary inclusion and thus mandatory payment at any rate,” Bach, who wasn’t involved in the study, said by email.

While some of the poorest patients may have lower or no out-of-pocket costs because of additional coverage or subsidies, it’s also possible that some patients who face larger out-of-pocket costs may stop taking their medicines, Bach said.

“There is little doubt that this leads to worse outcomes,” Bach said.

SOURCE: bit.ly/1I9yrhd Journal of Clinical Oncology, online December 7, 2015.

7 ways to save on taxes before the year ends

Yahoo Finance December 21, 2015 By Mandi Woodruff

Now is the time to maximize your tax saving strategies before we officially say adios to 2015. We tapped a few experts for their favorite year-end tips:

Contribute to your 401(k) or IRA. Making a tax-deductible contribution to your IRA is one of the best ways to shelter your income from federal taxes, says Theresa Shea, a certified public accountant and professor of accounting and taxation at Widener University School of Business Administration. Not only do you reduce your total taxable income, you're also bolstering your nest egg and allowing that money to grow tax-free until retirement. The 401(k) contribution limit for 2015 is $18,000.

Sign up for a health plan. The penalties for individuals who didn't have health care in 2015 are three times higher than last year. You'll pay whichever is higher: 2% of household income or $325 per adult and $162.50 for children under 18. You'll have to declare whether you had health insurance when you file your taxes in April. Some people will be exempt from these penalties, if, for example, they lost a job, filed bankruptcy, or were evicted.

Buy equipment for your business. If you own your own business, you can deduct up to $500,000 worth of equipment expenses on your 2015 taxes. "Business owners can buy equipment at the end of the year, even computers and phones, if they haven't used the full amount," says Michael Eisenberg, a CPA in Encino, Calif.

Transfer stock to a Charitable Remainder Unitrust. This is a favorite tax saving strategy of the wealthy (who could forget the great Mitt Romney CRUT scandal of 2012?). If you sold stocks that have seen major gains in a given year, you can avoid taking a big capital-gains tax hit by opening up a Charitable Remainder Unitrust (CRUT), Eisenberg says. You assign a beneficiary (that person can be yourself, a relative, a friend, etc.) and can earn income from that trust each year, like an annuity. This distribution starts at a minimum of 5% and maxes out at 50% a year. When the beneficiary dies, the remaining funds are donated to a designated charity.

Make the most of bad investments. If you own stocks that have depreciated in value since you bought them, you can sell them at a loss and use those losses to reduce or eliminate capital gains taxes from winning investments – a process called tax loss harvesting. Just beware of the 30-day wash rule. The rule prevents greedier investors from taking advantage of tax loss harvesting by selling shares at a loss, securing the tax benefit, and then buying back the same company's stock afterward. You have to wait at least 30 days before purchasing the same shares if you sold them at a loss, Eisenberg says. The wash rule also applies to mutual funds and ETFs. If you sell shares in one ETF at a loss and buy an ETF that tracks the same index, for example, you could trigger the wash-sale rule. There's a way to get around the wash rule in this case, however: you can sell and buy back a mutual fund or ETF with similar investments so long as you purchase funds from a different "family", Eisenberg notes. For example, you could sell a Vanguard fund that tracks the S&P 500 and purchase shares in a Charles Schwab fund that tracks the S&P 500 as well. It's all a little confusing, to be sure. To find out if tax loss harvesting makes sense for you, talk about it with your CPA or financial adviser for your year-end portfolio checkup.

Prepay your mortgage. Since the interest you pay on your mortgage is tax deductible, you can maximize your tax deductions by pre-paying your January mortgage. Just keep in mind that makingan extra payment in 2015 means you'll have to make another early payment in 2016 in order to keep that benefit rolling from year to year. So Eisenberg cautions homeowners from using this strategy without input from a financial advisor or CPA. "You have to look at your financial situation and determine if it might make sense for you," he says. "If you don't do it every year, the benefit is not there every year."

Ask your employer to defer your bonus until next year. If you're scheduled to get an annual bonus in December, asking your employer to defer it until the new year can lower your taxable income for the current year. However, like making an early mortgage payment, this is a strategy that only works if you remember to do it each year. "Should you defer your bonus in 2016 and then you get another bonus next December, boom, you've got two bonuses on your 2016 income," Eisenberg says. Another reason to defer your bonus: You'll have a guaranteed source of cash to help pay off any lingering credit debt incurred during the holidays. Of course, not all employers may be willing (or able) to shift the disbursal of your bonus, but it can't hurt to ask.

Retirement: The One Thing Couples Shouldn't Do Together

By Mark P. Cussen, CFP®, CMFC, AFC

Many working couples dream of the day when they can retire and sail off into the sunset together. The investment and insurance industries have done much to convince the public that this ideal is possible only with the help of certain products and services, and the financial media has endorsed that idea. However, working couples should take a moment to consider whether retiring at the same time is a wise course of action. This article will compare the financial ramifications of joint retirement versus one spouse working longer than the other, and why the latter option may be more advantageous in the long run.

Why Shouldn't Couples Retire Together?

There are both financial and emotional reasons why it may be easier for many working couples to stagger their retirement dates. Financially speaking, the advantages are threefold. When one spouse works longer, the amount of Social Security benefits the couple is entitled to will increase. In addition, the continued income from the working spouse gives the couple a few more years to save for retirement. Finally, a spouse who works an extra three to five years will likely have a shorter period over which to draw on his or her retirement assets, allowing for larger withdrawal amounts each year.

The Financial Impact

The following example clearly shows how much of a difference an extra five years of work can make for a couple:

Example - The Benefits of Working Longer

Larry and Sally Griffen are both 60 years old. They each earned an average of $40,000 per year during their working years. Both of them come from families with longevity, and each expects to live to age 90. Larry and Sally both plan to retire at age 65. At their current rate of saving, the couple will have $300,000 of joint retirement assets plus their Social Security benefits at age 65. Assuming that the Griffens' investments earn an average of 6% per year, they can expect to receive approximately $14,750 per year in retirement in addition to their Social Security, assuming depletion of assets by age 90.

The Griffens can realistically expect their joint retirement income to drop by close to 50% of their pre-retirement income, depending on when they decide to start drawing Social Security. The Social Security benefits online calculator reports that Larry and Sally can each expect an annual benefit of approximately $20,000 if Larry retires at age 65. This would bring their total annual retirement income up to approximately $55,000 ($20,000 + $20,000 + $14,750) per year - an almost 30% drop in income, from their $80,000 pre-retirement income. But then Larry starts to contemplate what would happen if he were to work for another five years. If he did, then he could step up his contributions to accumulate another $30,000 in his retirement plan (15% of $40,000 = $6,000 x 5 years, plus investment growth) and would draw on it for five fewer years.

If the Griffens are able to postpone any retirement plan distributions until Larry retires and Sally begins taking Social Security at age 65, they could reasonably expect to have a total of approximately $437,000 in retirement assets, plus Larry's increased Social Security benefits of close to $28,000 per year. If their investments continue to grow at 6% and they deplete their assets at age 90, their total annual retirement plan distributions would come to about $36,000, plus $48,000 of total Social Security benefits. This effectively replaces the income from their jobs until age 90. Of course, the Griffens would be wise to draw on their plan assets a little more slowly, so they have a cushion in case one or both of them should live past their estimated life expectancy.

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