Physicians Private Client Group
"The Wealth Advisors for Physicians and Dentists"

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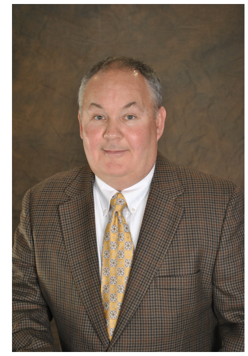

What you need to know about Retirement plans

I hope you find our eCommunications to be helpful, educational, informative, and worthwhile. Contact us if you have questions or concerns as they relate to your specific circumstances or would like to discuss any of these topics in greater detail. We welcome your calls and feedback. To save time, try our Calendar Link to schedule a convenient time. During these unprecedented times, many folks are seeking professional guidance. Feel free to share this information with friends, family, associates, and others who can benefit or may seek professional help or advice from a seasoned veteran who has weathered numerous Black Swan events. We look forward to being a resource and being available to help guide you through these treacherous times.

Very best regards,

John M. Sklencar, RFC

About John M. Sklencar, RFC

John M. Sklencar is **Registered Financial Consultant (RFC)** with the **International Association of Registered Financial Consultants** and has been providing financial advice since 1982. In 2010, John became President and Founder of **Physicians Private Client Group (PPCG)** , an award winning wealth management firm based in Plymouth Meeting, PA to better serve the Retirement, Investment, Insurance and Financial Planning needs of Physicians, Dentists, Hospitals, Medical Practices, Professionals and Accredited Investors throughout the Mid-Atlantic states. PPCG specializes in designing and implementing highly customized, cost effective Retirement Plans for Medical Practices and Professionals and Wealth Accumulation, Preservation, Protection, Distribution and Transfer strategies for individuals. Mr. Sklencar has been dedicated to helping the medical community since 1984.

In 2018, the **Philadelphia Inquirer, Daily News and Philly.com** awarded John with **"Influencer of Finance in Wealth Management."** In **April 2014 & 2013** - John Sklencar was **"Selected as a Top Financial Advisor for Dentists by Dental Practice News."** In **2012, 2006 and 2004** , John M. Sklencar was named as **"One of the top 150 Financial Advisor's for Physicians in the United States"** by Medical Economics. In 2010, Mr. Sklencar formed **Physician's Private Client Group** to market niche financial services to medical professionals throughout the Mid-Atlantic region.

Through his affiliation with **FSC Securities Corporation since 1994** , Mr. Sklencar has been able to develop a team of nationally recognized industry experts across multiple disciplines where he has access to many of the countries leading Attorneys, Economists, Money Managers, Pension Administrators, Financial Institutions and Insurance Providers to provide his client's with a unique array of boutique solutions, strategies, services and programs individually tailored to each clients specific goals and objectives.

From 1994 to 2004, Mr. Sklencar has been a **Registered Principal** with FSC Securities Corporation. In 1994, John served as **Vice President** with CDC Associates, Inc., a **Registered Investment Adviser** . From 1988 to 1993, John was a **Senior Financial Counselor** with **AMA Investment Advisers** , a wholly-owned subsidiary of **The American Medical Association** . Mr. Sklencar traveled the country conducting financial education workshops, provided comprehensive financial plans and implemented retirement, investment and insurance strategies for many physicians and their families. In 1979, John began his career as **Internal Auditor** for the **Internal Revenue Service** where he gained invaluable insight into tax law. Between 1982 and 1988, John held various positions for several prominent Philadelphia investment, banking and insurance institutions, including **Provident Mutual** , **Meritor Financial Group** and **John Hancock Financial Services** .

Mr. Sklencar has been providing educational seminars, workshops and webinars for associations, hospitals, organizations, medical practices and specialty societies, including the **Holy Family University Masters Program** , **Internal Revenue Service** , the **American Medical Association** , the **Medical Society of New Jersey** and the **Montgomery and Chester County Medical Societies** . John is committed to help educating investors about all aspects of financial and retirement planning. John has been a sought out speaker for **Successful Money Management Seminars** and **Financial Strategies for Successful Retirement** .

Mr. Sklencar has a Bachelor of Science degree in **Accounting** from **Drexel University** . Mr. Sklencar is a current member of the **Society of Financial Professionals** . John holds the following **FINRA** securities registrations: **Series 6, 7, 24, 63, 65** . He is licensed for L **ife & Health insurance in NY, PA & NJ** . He attends annual Firm Compliance & Continuing Education Requirements. Mr. Sklencar served as **Secretary** on **Warwick Township's Water & Sewer Board** and their Finance Committee. John is a member of the **American Friends of Italy,** a local non-profit that helps various local charities. John was a **Charter Founding Board member of the Greater Jamison Business Association and Charter Founding Board member of A.O.H. Division 88 - Officer Danny Boyle.** John is an active member in a variety of community groups and has been instrumental in implementing successful fund raising campaigns for several non-profit organizations.

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Employer Retirement Plans

As an employer, you may want to establish one or more retirement plans for yourself or your employees. This chart highlights some of the common types of retirement plans available to you. Choosing the right one for your situation is a critical decision. (The numbers shown are for the 2020 tax year.)

QUALIFIED EMPLOYER PLANS

- Code Section 401(a) rules apply[1]
- ERISA applies (except governmental, church, and employer-only plans)
- Can be adopted by most employers[2]
- Participant loans may be available
- Immediate or deferred vesting [except SIMPLE/Safe-Harbor 401(k)s]
- Highest level of protection from creditors (ERISA plans)

DEFINED CONTRIBUTION PLANS

- Separate employee accounts
- Employee bears investment risk
- Investments may be employee directed
- Not insured by PBGC

Employee Stock Ownership Plans

Participant accounts invested primarily in employer stock

Money Purchase Pension Plans

- Required annual employer contributions
- Joint survivor rules apply

Types:

Traditional Money Purchase—fixed contribution, typically percentage of pay

Target Benefit Plan—Fixed contribution is amount actuarially determined to fund projected retirement benefit, but actual benefit based solely on account balance

DEFINED BENEFIT PLANS

- Funding rules apply: actuary generally required
- Joint and survivor annuity rules apply
- PBGC premiums may be required
- Employer bears investment risk

Traditional Defined Benefit Plans

Guarantees a specific benefit at retirement, typically based on age, years of service, and pay

Cash Balance Plans

Benefit is based on hypothetical account balance

412(i) Plans

- Like traditional defined benefit plan but financed exclusively with life insurance and annuity contracts
- Exempt from funding rules

Profit-Sharing Plans

- Discretionary annual employer contributions
- Joint and survivor rules may be avoided

Types:

Traditional Profit-Sharing Plans

- Discretionary employer contribution to 25% of pay

Cross-Tested Plans (tested under defined benefit nondiscrimination rules)

<u>Age-weighted Plans</u>

- Contributions based on age and compensation

<u>New Comparability Plans</u>

- Employees grouped into classes based on age/position/other factors

401(k) Plans (salary deferral plans)

<u>Traditional 401(k) Plans</u>

- Maximum deferral/catch-up $19,500/$6,500
- Additional PS contribution allowed
- Annual discrimination testing

<u>Individual or Employer-only 401(k) Plans</u>

- Covers only business owners (and spouse)
- Like traditional 401(k) but ERISA doesn't apply

<u>Safe-Harbor 401(k) Plans</u>

- Like traditional 401(k) but mandatory employer contribution (fully vested)
- No testing for deferrals/employer mandatory contribution
- Special top-heavy rules

<u>SIMPLE 401(k) Plans</u>

- Maximum deferral/catch-up $13,500/$3,000
- Mandatory employer contribution (fully vested)
- No discrimination testing
- Maximum 100 employees
- Top-heavy rules do not apply

IRA-BASED PLANS

- Can be adopted by most employers[3]
- Separate IRAs for each participant
- Employee directs investment
- Employee bears investment risk
- Broad participation requirements
- Limited ERISA compliance
- Joint and survivor rules do not apply
- Not insured by PBGC
- No loans
- Immediate vesting

SEP IRA

- Discretionary annual employer contribution
- No employee deferrals permitted[4]
- May be integrated with Social Security
- Top-heavy rules and §415 limits apply

SIMPLE IRA

- Employer contribution required
- Employee deferrals permitted
- Maximum deferral/catch-up $13,500/$3,000
- Maximum 100 employees

Payroll Deduction IRA

- Employees contribute to IRA through payroll deduction
- Very limited employer involvement to avoid ERISA
- May be Roth or Traditional IRAs
- Regular IRA limits apply
- Maximum contribution/catch-up $6,000/$1,000

PLANS FOR GOVERNEMNTAL AND TAX-EXEMPT EMPLOYERS

- Separate employee accounts
- Investments may be employee-directed
- Employee bears investment risk
- Governmental plans exempt from ERISA
- Not insured by PBGC
- Loans may be available
- Joint and survivor rules generally do not apply

403(b) Plans

- Can be adopted by tax-exempt charitable organizations and public school employers
- Salary deferrals permitted
- May be employer funded (immediate or deferred vesting)
- Employer contributions subject to discrimination testing
- ERISA may apply to tax-exempt employers
- Funded with annuities or mutual funds
- Maximum deferral/catch-up $19,500/$6,500[6]
- Section 415 limits apply

457(b) Plans

- Can be adopted by most tax-exempt organizations and state and local governments[5]
- Salary deferrals permitted
- May be employer funded (immediate or deferred vesting)
- Tax-exempt employers subject to ERISA; nongovernmental plans typically limited to top-hat group
- Maximum deferral/catch-up $19,500/$6,500[6]

1. Minimum coverage, vesting, discrimination, deduction, Social Security integration, section 415 limits, top-heavy rules, and other rules may apply. State and local government plans are exempt from many section 401(a) requirements. Special rules may apply to certain church plans, tax-exempt organizations, and collectively bargained plans.

2. Governmental entities may not adopt a 401(k) plan. Employer with more than 100 employees (ignoring employees earning less than $5,000) may not adopt a SIMPLE 401(k) plan.

3. Employer with more than 100 employees (ignoring employees earning less than $5,000) may not adopt a SIMPLE IRA plan.

4. For plans adopted after 1996.

5. May not be adopted by churches or church-controlled organizations.

6. Special catch-up limits may apply. Age 50 $6,000 catch-up limit does not apply to nongovernmental 457(b) plans.

Saving For Your Retirement

START

First contribute to employer sponsored retirement plans, at least enough to get full company match

- Company match is free money
- Dollars grow tax deferred until withdrawn
- You may forfeit match if you don't work for a given length of time
- Systematic payments from your paycheck – you'll hardly notice
- Investment choices might be limited
- Some plans allow Roth contributions-tax free when withdrawn, earnings tax free if "qualified distribution"
- Some plans allow pre-tax contributions resulting in an immediate tax savings

Remaining money →

Contribute to Roth and/or traditional IRA

- Many investment options
- Traditional IRA contribution may or may not be tax deductible
- Dollars grow tax deferred until withdrawn
- Can contribute up to $6,000 in 2020 ($7,000 if age 50 or older)
- Some plans allow Roth contributions-tax free when withdrawn, earnings tax free if "qualified distribution"

Remaining money →

Other options: Annuities, stock plans, life insurance, nonqualified deferred compensation, stock, mutual funds, etc.

- Annuities, life insurance, and other options have unique tax advantages
- Lower capital gains tax rates make some equity investments more attractive for retirement planning
- Some options may be complex, and timing of taxable events may be difficult to control

KEY: Definite plus | Need more info | Potential Disadvantage

* Employers can allow employees to make after-tax "Roth" contributions to the employer's 401(k) or 403(b) plan. Qualified distributions of these contributions and related earnings are tax free.

** Individuals age 50 and over may make additional $1,000 IRA catch-up contributions.

401(k) Plans

Key strengths

• You receive "free" money if your contributions are matched by your employer
• You decide how much to save (within federal limits) and how to invest your 401(k) money
• Your regular 401(k) contributions are made with pretax dollars
• Earnings accrue tax deferred until you start making withdrawals, usually after retirement
• Your Roth 401(k) contributions (if your plan allows them) are made with after-tax dollars; there's no upfront tax benefit, but distributions of your contributions are always tax free and, if you satisfy a five-year waiting period, distributions of earnings after age 59½, or upon your disability or death, are also tax free
• You may qualify for a partial income tax credit
• Plan loans may be available to you
• Hardship withdrawals may be available to you, though income tax and perhaps an early withdrawal penalty will apply, and you may be suspended from participating for up to six months
• Your employer may provide full-service investment management
• Savings in a 401(k) are generally exempt from creditor claims (but not from IRS claims)

A 401(k) plan is a type of employer - sponsored retirement plan in which you can elect to defer receipt of some of your wages until retirement. If you make pre-tax contributions, your taxable income is reduced by the amount that you contribute to the plan each year, up to certain limits. The contributed amount and any investment earnings are taxed to you when withdrawn or distributed. If your plan allows after-tax Roth contributions, there's no immediate tax benefit, but qualified distributions are entirely tax free.

Most 401(k) plans offer an assortment of investment options, ranging from conservative to aggressive.

Bear in mind...

• 401(k)s do not promise future benefits; if your plan investments perform badly, you could suffer a financial loss
• If you withdraw the funds prior to age 59½ (age 55 in certain circumstances) you may have to pay a 10 percent early withdrawal penalty (in addition to ordinary income tax)
• The IRS limits the amount of money you can contribute to your 401(k)
• Unless the plan is a SIMPLE 401(k) plan, a safe harbor 401(k) plan, or the plan contains a qualified automatic contribution arrangement, you may have to work for your employer up to six years to fully own employer matching contributions

Individual 401(k) Illustration

If you are a self-employed individual or small business owner with no full-time employees (other than your spouse), then an individual or "solo" 401(k) will allow you to maximize retirement contributions by combining 401(k) compensation deferral with profit-sharing plan contributions. Depending on the amount of self-employment or small business income you want to defer, an individual 401(k) may be an attractive option.

Profit Sharing Contribution

Tax-deductible contribution of up to 25% of total eligible compensation

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401(k) Deferral

Tax-deductible elective deferral contribution of up to $19,500 in 2020 (up to $26,000 if 50 years of age or older)

Maximum Total Contribution

Up to the lesser of:

$57,000 in 2020, **OR**
100% of compensation

Plus catch-up contributions up to $6,500 if age 50 or older

Highlights:

- Contributions are discretionary--you can contribute any amount (or nothing at all) up to the maximum limit in any given year
- Plan may allow loans
- Plan may allow Roth contributions
- Plan may allow a rollover from other types of retirement arrangements
- Plan will generally involve fees to establish and administer

*Eligible compensation in 2020 can't exceed $285,000. If the business is unincorporated, individual 401(k) plan compensation is based upon net earned income. This means that self-employed individuals must deduct one-half of their self-employment tax as well as any plan contributions to determine their compensation base. Effectively, this means that an unincorporated business with one owner-employee can deduct profit-sharing contributions of up to 20% of the owner-employee's earnings after the deduction for one-half of self-employment tax. Similarly, profit-sharing contributions can't exceed 50% of the owner-employee's earnings, reduced by the deduction for one-half of the self-employment tax and further reduced by the owner-employee's elective deferrals.

Traditional Pension Plans

In general

If you participate in a traditional pension plan at work (technically known as a qualified defined benefit plan), you'll generally be entitled to receive monthly benefits from the plan after you retire. These benefits are usually based on your age at retirement, as well as your years of service and your average earnings with the company. The normal form of benefit is typically a single life annuity. That is, an annuity that makes monthly payments to you while you're alive, and stops upon your death.

If you're not married at retirement, federal law requires that your benefit be paid as a single life annuity, unless you elect a different payment option. If you are married when you retire, federal law requires that your benefit be paid as a qualified joint and survivor annuity (QJSA), unless you elect another payment option. The QJSA is an annuity that pays monthly benefits to you while you're alive, and continues to pay at least 50% of your benefit to your spouse upon your death.

Depending on your plan's provisions, you may have other payout options to choose from as well. Any optional form of benefit offered by your plan must be at least as valuable (actuarially speaking) as the single life annuity. You'll want to select a payment option that will provide you with sufficient retirement income. In addition, if you're married, you'll want to be sure that your spouse will have sufficient income in the event that he or she outlives you.

Caution: *If the present value of your pension benefit is $5,000 or less at your retirement date, the plan can pay your benefit in a lump sum without your (or your spouse's) consent. If you fail to choose whether to receive the distribution in cash or to roll it over to an IRA, and the present value of your benefit exceeds $1,000, your plan is required to automatically roll the money over to an IRA established on your behalf.*

Qualified joint and survivor annuity

The payments you'll receive under a qualified joint and survivor annuity (QJSA) are generally smaller than you would receive with a single life annuity because they continue until both you and your spouse have died. The single-life annuity provides a larger monthly payment because it's paid over a shorter period of time--one lifetime instead of two. Payments stop once you, the plan participant, die.

The QJSA is typically "actuarially equivalent" to the single life annuity. That is, the present value of the smaller QJSA benefit (payable for a longer period of time) is equal to the present value of the larger single life annuity benefit (payable for a shorter period of time), based on your life expectancy and that of your spouse.

However, some employers "subsidize" the QJSA. Subsidizing the QJSA occurs when your employer's plan does not reduce the benefit payable during your joint lives (or reduces it less than actuarially allowed), despite the longer payout period, making the actuarial value of the QJSA greater than that of the single life annuity option. It's important for you to know whether your employer subsidizes the QJSA, so that you can make an informed decision about which payment option to select.

Example(s): *Mary is a participant in her employer's defined benefit plan, and is married. Mary's pension benefit, payable as a single life annuity, is $3,000 per month beginning at age 65. Mary's benefit payable as a QJSA is $2,700 per month, with 50% of her benefit (which is $1,350) continuing to her husband after her death. Mary's benefit is not subsidized, because the benefit payable during her lifetime is actuarially reduced so that the present values of the QJSA and the single life annuity are equal.*

Example(s): *John is a participant in his employer's defined benefit plan, and is married. His pension benefit payable as a single life annuity is $3,000 per month beginning at age 65. His benefit payable as a QJSA is $3,000 per month, with 50% of his benefit (which is $1,500) continuing to his wife after his death. John's QJSA is subsidized. The benefit payable during John's lifetime is not reduced, even though benefits will be paid over both John's and his spouse's lifetimes. The present value of the QJSA is greater than the present value of the single life annuity.*

Federal law requires that the survivor annuity portion of a QJSA be at least 50% of the amount you receive during your joint lives. However, depending on the terms of your employer's plan, you may be able to elect a spousal survivor benefit of up to 100% of the amount you receive during your joint lives. Generally, the greater the survivor benefit you elect, the smaller the amount you will receive during your lifetime (unless your employer subsidizes the survivor annuity).

Tip: *If the survivor annuity provided by a plan's QJSA is less than 75%, a participant must be allowed instead to elect a 75% survivor annuity. If the survivor annuity provided by the plan's QJSA is greater than or equal to 75%, the participant must be allowed to elect a 50% survivor annuity. This qualified optional survivor annuity must be actuarially equivalent to a single annuity for the life of the participant. (Generally, a later effective date applies to collectively bargained plans.)*

You and your spouse should receive an explanation of the QJSA (including your right to waive the QJSA benefit), and a discussion of the relative values of the payment options available to you. Be sure you discuss your options with your spouse before making an election.

Tip: *The QJSA must be at least as valuable as any optional form of benefit available to you.*

Caution: *Your plan can require that you be married for one year before you're eligible to receive your pension benefit in the form of a QJSA.*

Caution: *Special rules apply to plan participants who have been divorced. In some cases, your previous spouse may be entitled to the QJSA if required by a court's qualified domestic relations order (QDRO). Make sure to discuss your particular situation with a qualified professional.*

Waiving the QJSA in favor of a single life annuity

In general

You may waive the QJSA with your spouse's written consent during the waiver period. The waiver period is generally the 180-day period prior to your annuity starting date. Assuming the QJSA is available to you, and your spouse agrees to a waiver, the two of you may have a difficult decision to make. If you opt for the QJSA, you have the security of knowing that your spouse will receive a guaranteed monthly income after you die. Also, choosing a QJSA often entitles both spouses to continued health coverage and other benefits that might otherwise be lost. On the other hand, waiving the QJSA in favor of a single life annuity or other payout will often increase the monthly benefit you'll receive during your joint lifetimes. However, your spouse will lose the benefit of guaranteed survivor benefits over his or her lifetime after you die.

Caution: *Be sure to seek qualified professional advice, since choosing a pension payout option can be complex, and the decision will impact your financial future and that of your spouse. The decision to waive the QJSA can be one of the most important retirement decisions you will make. With a QJSA, payments continue as long as either you or your spouse is alive. By contrast, with a single life annuity, payments last for your lifetime and cease upon your death. For example, if you received one payment after retirement and then died, the single life annuity would provide no further pension payments. Your spouse would receive nothing. As noted above, the QJSA will normally be the most valuable form of benefit available to you, and is sometimes subsidized, so consider your options carefully.*

Why would you waive the QJSA and instead opt for a single life annuity knowing that payments will stop at your death? One reason is that, as discussed earlier, the single life annuity generally pays a larger monthly benefit than the joint and survivor annuity. That's because the payments are designed to last for a smaller number of years (i.e., one life expectancy instead of two). But that's not the only consideration. Some other factors to consider include:

- Health and life expectancy of your spouse: If your spouse is in poor health or has a short life expectancy, selecting the single life annuity may make more sense than selecting the QJSA. As the plan participant and the surviving spouse, you would have the benefit of the higher monthly payout from the single life annuity for the rest of your life.
- Other sources of retirement income: If you (or your spouse) have other assets that can provide sufficient income for your spouse after your death, it may make sense to waive the QJSA and choose the larger single life annuity benefit.
- Age difference between you and your spouse: If there is a large difference between your age and your spouse's age (with you being much older), opting for the single life annuity may make more sense. If your spouse is considerably younger than you, his or her longer life expectancy will be factored into the calculation of the QJSA benefit, resulting in smaller monthly payments. This could leave you and/or your spouse without sufficient retirement income. But again, caution is necessary — if you select a single life annuity and you die soon after retiring, your spouse may have to survive financially without the benefit of your pension for a long period of time.
- Your gender: If you (the plan participant) are female, then selecting the single life annuity may make more sense than selecting the QJSA. The reason: All other factors being equal, women are statistically more likely to outlive men of the same age. You will benefit from the higher monthly payout under the single life annuity while you are alive. By contrast, if you select the QJSA and your spouse dies first, you may be stuck with a smaller payout for the rest of your life.
- Other plan features: Be sure you understand all of the options and features available to you under your employer's plan. For example, some pension plans have a cost-of-living adjustment (COLA) feature that allows the monthly benefits to be periodically increased to keep pace with the rate of inflation. This could be a valuable benefit for your spouse following your death. And, some pension plans offer their participants a "pop-up" provision specifying that if they initially select a QJSA payout and the spouse dies first, they can then retroactively select a single life annuity payout. This gives you flexibility to adapt if things do not go as planned. If your pension plan offers this option, it may be better to initially select the QJSA.

Waiving an annuity in favor of a lump-sum payment

In general

Some traditional defined benefit plans allow you to take a lump-sum payment in lieu of an annuity (again, you'll need your spouse's consent if you're married). Whether to take the lump sum instead of an annuity can be a difficult decision. If you take a lump sum, you'll be giving up guaranteed income for your life (and your spouse's life if you're married). You'll also assume the risk (and the potential reward) of investing the assets yourself. You'll need to make an educated guess as to whether the lump sum will ultimately be more valuable to you than the annuity benefit — but this will depend on your actual investment experience, how long you (and your spouse) live, inflation, and other factors that are currently unknown. When making your comparison, you'll also need to consider whether your annuity benefit would have been eligible for inflation (COLA) adjustments, or early retirement or other employer subsidies.

Caution: *The guaranteed income is subject to the claims-paying ability of the annuity issuer.*

Tip: *To get a quick idea of the value of a lump-sum payment versus the plan's annuity benefit, consider how much of an annuity benefit you can purchase outside the plan with that lump-sum payment.*

A lump sum might be an attractive alternative if you're in poor health. If you roll the funds over to an IRA, your beneficiary will receive any balance left at your death. Your beneficiary can then take withdrawals, or convert all or part of the balance to an annuity. You may also find the lump sum attractive if you have other resources available and don't immediately need the income when you retire.

Caution: *While you can use all or part of your lump sum to purchase an annuity, the expenses involved may cause you to wind up with a smaller annuity benefit than you could have received from your pension plan (you'll be paying the expense of purchasing the annuity instead of the pension plan).*

Advantages of selecting a lump-sum payout

The advantages of selecting a lump sum include:

- You'll have complete control over when and how you use your pension benefits, and how those dollars are invested until you need them. Annuity benefits, like other fixed income payments, can be eroded by inflation. With a lump sum, you'll be managing your investments yourself, and you may be able to rebalance your portfolio to counter inflationary trends.
- Your lump sum can generally be rolled over into an IRA where it can continue to enjoy the benefit of tax-deferred earnings. (If you're over 70½ (72 if you attain age 70½ after 2019), you can't roll over any part of your lump sum that constitutes a required minimum distribution. Your plan administrator will calculate this amount for you.)
- A lump sum allows you to potentially leave funds to your heirs or to a charity. A lump sum may be particularly attractive to single employees for this reason — with the single life annuity, payments would stop after the employee's death.
- Some pension plans satisfy their benefit obligation by purchasing an annuity for you from an insurance company. Others will not purchase an annuity, but will pay your pension benefit directly out of plan assets instead. Plan assets are held separately from your employer's general assets. But in the event of bankruptcy, there may not be enough assets to pay all promised benefits. If your plan pays pension benefits out of plan assets, and you're concerned about your employer's financial condition, the lump sum may be a better choice. (Tip: Your benefit may be fully protected by the Pension Benefit Guarantee Corporation (PBGC), which insures defined benefit pension plans.)
- You can use all or part of your lump sum to purchase an annuity. However, because you'll be paying the expense of purchasing the annuity instead of the pension plan, you may wind up with a smaller annuity benefit than you could have received from your pension plan.

Disadvantages of selecting a lump-sum payout

Disadvantages of selecting a lump sum include:

- You may be tempted to use the funds without incorporating your withdrawals into a comprehensive retirement income strategy. If you use your retirement nest egg too soon, you could find yourself without sufficient funds to last through your, and your spouse's, retirement.
- You'll be responsible for investing your lump-sum dollars until you need them. Investment losses, especially in your early years of retirement, could also cause you to experience a retirement income shortfall.
- You may underestimate life expectancies for you or your spouse, causing you to run out of funds too early.
- If you don't roll over your lump sum, the entire amount will generally be subject to income tax (at ordinary income tax rates) when received, and a 10% premature distribution penalty may also apply if you retire before age 55 (age 50 for qualified public safety employees participating in certain state or federal governmental plans), unless an exception applies. And, you'll lose the benefit of tax-deferred earnings.
- By opting for the lump sum, you'll generally forego the value of any early retirement or QJSA subsidies.
- Some employers tie eligibility for retiree health coverage to the pension payment — if you choose a lump sum, you could lose your retiree health coverage.

Maximizing your pension with life insurance

As discussed earlier, under most pension plans (and depending on various factors such as the age of the two spouses), a single life annuity will pay out substantially more per month than a QJSA. Most people would like to have that extra income during their retirement years. However, most people are also concerned about providing for their spouses if they should die first. One technique for solving this dilemma is to choose the single life annuity, and then purchase insurance on your life with your spouse named as beneficiary. By selecting a single life annuity along with the purchase of a life insurance policy on the participant's life, some couples can increase their income during retirement while also providing for the surviving spouse's financial future. You should consider whether this strategy, commonly called pension maximization using life insurance, is appropriate for you.

Other payment options

Depending on the distribution options your plan offers, you may be able to waive the single life annuity or QJSA (with your spouse's consent), and receive payments from the plan in some other form instead. You may also be able to choose a joint annuitant other than your spouse. In general, the same considerations described above in "Waiving the QJSA" apply when determining whether to waive the QJSA in favor of an optional form of benefit. The following are some of the more common optional forms of benefit available in defined benefit pension plans.

- Period certain: This option is generally a single life annuity combined with a guarantee period. If you die before a specified period of time (usually 5, 10, or 15 years) payments will continue to your beneficiary until the end of the guarantee period. The benefit payable during your lifetime is smaller than with the regular single life annuity because of the period certain benefit.
- Level income option: If you retire before you're eligible for Social Security benefits (age 62 for early benefits, age 66 or later for full benefits), you'll have a gap in your retirement income until your Social Security benefits begin. The level income option lets you receive a larger benefit from your pension plan before you start collecting Social Security, and a smaller pension benefit afterwards. In this way, your combined pension and Social Security benefits remains relatively stable during your retirement years. You can generally elect this option whether you receive your benefit as a single life annuity or a QJSA.
- Lump sum: See "Waiving an annuity in favor of a lump sum," above.

Qualified pre-retirement survivor annuity

If you die before you begin receiving distributions from your defined benefit plan, your surviving spouse may be entitled to what is known as a qualified pre-retirement survivor annuity (QPSA). The QPSA is an immediate annuity, payable for your surviving spouse's life, that is at least equal in value to the QJSA benefit your spouse would have received if you had retired upon reaching the plan's earliest retirement age (or, if later, on your date of death).

You may waive the right to a QPSA, and have your death benefits paid in some other form or to a beneficiary other than your spouse instead, but only if the plan permits such an election and your spouse consents to the waiver in a timely filed and witnessed writing. If a QPSA waiver is allowed, you and your spouse should receive an explanation of the QPSA, and a description of the financial effect, if any, that selecting or waiving the QPSA will have on your normal retirement benefit. Because waiving the QPSA will generally mean that your surviving spouse will not receive a survivor annuity if you die before you retire, be sure to fully discuss the decision with your spouse and your financial professional.

Caution: *If you've been divorced, a court's qualified domestic relations order (QDRO) can require that your QPSA be paid to your prior spouse. Be sure to discuss your individual situation with a qualified professional.*

Taxation of annuity payments

In general, retirement plan distributions are subject to ordinary federal (and possibly state) income tax. The one exception is if you have ever made any after-tax contributions to the plan. Because those dollars have been taxed already, they will not be taxed again when they are paid out to you. While uncommon, if you've made after-tax contributions to your defined benefit plan, a portion of each annuity payment made to you will not be subject to income tax.

Tip: *States generally cannot tax your pension benefit if you're not a resident of the state at the time you receive your payment. This is true even if you earned the pension in that state but have since moved.*

Investing for Retirement

Keep in mind...

- A well-diversified portfolio can help balance risk
- The earlier you start investing, the more you can contribute over the course of your working lifetime
- By starting early, your investments will have a longer period of time to compound
- With a longer time frame, you will have a larger choice of investment possibilities

Why save for retirement?
Because people are living longer. According to the U.S. Administration on Aging, persons reaching age 65 have an average life expectancy of an additional 19.5 years.* And since the average monthly Social Security benefit is $1,471,** Social Security alone may not be enough to see you through your retirement years.

What to do...

- Assess your risk tolerance
- Determine your investing time frame
- Determine the amount of money you can invest
- Choose investments that are appropriate for your risk tolerance and time horizon
- Seek professional management, if necessary

*Source: *NCHS Data Brief,* Number 355, January 2020

**Source: *Social Security Basic Facts*, June 2019, Social Security Administration

How should I structure my retirement portfolio?

Answer:

Your first step is to take advantage of tax-favored retirement savings tools. If you have access to a 401(k) or other employer-sponsored plan at work, participate and take full advantage of the opportunity. Open an IRA account and contribute as much as you can. Ideally, you'd be able to invest in both an employer plan and an IRA.

Contributions to employer plans like 401(k)s are typically made on a pretax basis, but plans may also allow you to make after-tax Roth contributions. Your pre-tax contributions reduce your current income, but those contributions, and any investment earnings, are subject to federal income tax when you withdraw them from the plan. Your Roth contributions, on the other hand, have no up-front tax benefit. But your contributions are always tax free when distributed from the plan, and any investment earnings are also tax free if your distribution is qualified. Similarly, IRAs allow a choice of either tax-deductible contributions (traditional IRA) or tax-free withdrawals (Roth IRA). Plus, funds held in an employer plan or IRA grow tax deferred. These tax features may enable you to accumulate a sizable retirement fund, depending on how well the underlying investments perform.

With that in mind, you should aim for long-term investment returns and steady growth. Many financial professionals suggest a balanced portfolio of stocks, bonds, mutual funds, and cash equivalents. The percentage of each will depend on your risk tolerance, your age, your liquidity needs, and other factors. However, the notion is fading that you should change your investment allocations and convert your entire portfolio to fixed income securities, such as bonds or CDs, by the time you retire. Instead, many professionals now advise that you continue investing for long-term growth even after you retire--especially since people are retiring younger and living longer on average. Your own personal circumstances will dictate the right mix of investments for you, and a qualified financial professional can help you make the right choices.

Before investing in a mutual fund, carefully consider its investment objectives, risks, fees, and expenses, which are contained in the prospectus available from the fund. Review the prospectus carefully, including the discussion of fund classes and fees and how they apply to you.

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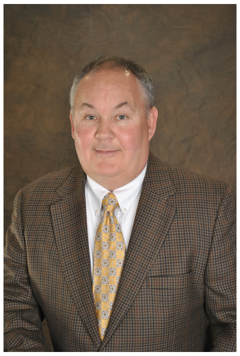

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