Retirement Income Sources for Lowe N. Cash

Report produced February 24, 2003

Notice:

This report lists your assets in order starting with those that appear best to liquidate first. This analysis is based on the data provided by you and listed in the Appendix. Factors such as expected rates of return, taxation, valuation after death, risk, and liquidity may be taken into account. None of these items can be fully determined in advance, however, and you may have additional reasons of your own for wanting to hold or dispose of specific assets.

It is important, therefore, that you treat the following order as a suggestion to be considered carefully by you, but not as the absolutely best order in which to extract cash from your assets.

After the name of each asset, two percentages are given. The first estimates the long-term annual rate of return after taxes while you are alive; the second estimates the long-term return after taxes at the time your heirs might inherit it.

It is also important to take Required Minimum Distributions from any plans for which they are needed, regardless of where these assets would otherwise fall in your priorities.

Certificates of deposit (1.61%, 1.61%)

This kind of asset is nearly risk-free in terms of safety of principal. Accounts in banks usually produce low returns and, except for a small exemption, are fully taxable. This asset is highly liquid and could be an excellent reserve for future emergencies.

Universal Disturbance Corp. 2022 bonds (3.14%, 3.08%)

Publicly traded bonds are usually very liquid. Bonds are usually relatively safe investments (although they can carry risks, and some bonds are high-risk).

Grandma's out-of-state munipal bonds (2.97%, 2.97%)

Government-backed bonds are usually safe investments (with some exceptions). Tax-free traded bonds are good to hold because they can be liquidated on short notice, if need be.

Spouse's non-qualified annuity (4.05%, 4.05%)

By their nature, annuities are (or, in the case of variable annuities, can be made to be) very low-risk assets. This annuity is expected to perform well over time, especially because of the built-in income tax deferral. Surrender charges on this account make immediate liquidation less desirable. Withdrawals prior to age 59½ are generally subject to a 10% penalty tax (although this can be avoided in some situations.)

Client's 401(k) (4.77%, 4.78%)

The tax-deferred nature of qualified retirement accounts makes them an excellent asset to hold onto. Despite the fact that such accounts are taxable at death, the tax deferral and expected performance during your lifetime will still build up significant value for your heirs. Qualified accounts are generally quite liquid.

Spouse's 403(b) (5.77%, 5.81%)

The tax-deferred nature of qualified retirement accounts makes them an excellent asset to hold onto. Withdrawals prior to age 59½ are generally subject to a 10% penalty tax (although this can be avoided in some situations.) Despite the fact that such accounts are taxable at death, the tax deferral and expected performance during your lifetime will still build up significant value for your heirs.

Primary residence (5.84%, 6.40%)

This property is expected to appreciate considerably in value, and if it is the primary residence may be eligible for a special tax break if sold. This home should be of significant financial benefit to your heirs. This asset is not liquid and it may be difficult to derive cash from it under some circumstances.

Spouse's Roth IRA account (5.00%, 5.00%)

With it's non-taxable status, this investment is expected to grow well. Performance with respect to your heirs is expected to be quite good. This asset's risk characteristcs should be reviewed.

Coin collection (5.23%, 5.88%)

This asset is expected to appreciate considerably in value. Non-income-producing assets often carry relatively low risk, but even so, values can fluctuate, and timing a sale can be very important. This asset could be of substantial financial benefit to your heirs. This asset may not be very liquid, or may be liquid at certain times more than others.

Fabulous Fund Group mutual fund shares (5.66%, 5.87%)

This fund is expected to perform relatively well during your lifetime. Mutual fund accounts are highly liquid. Your heirs may benefit from a step-up in basis at death, plus expected fund performance, assuming the latter materializes.

Interest in Uncle Fred's turkey farm (6.30%, 6.43%)

This investment has a high rate of return. Assuming that this asset is eligible for a step-up in basis at death (which may not be the case), it is expected to be of higher than average benefit to your heirs.

Client's whole life insurance policy (5.93%, 7.65%)

You are projecting a strong return on your insurance cash values during your lifetime. Insurance cash values are generally low risk assets, or if not, can readily be made so. Life insurance death benefits are income-tax free, and should be considerably higher than the cash value, which makes this asset a very good one from the standpoint of your beneficiaries. Life insurance cash values are usually accessible reasonably quickly and easily through policy loans or surrenders.

Consolidated Amalgamated Synergy Corp. common stock (8.35%, 8.68%)

This investment is hypothesized to do well during your lifetime. By receiving a probable step-up in basis at death, plus hoped-for investment performance, your heirs should benefit from this equity investment. Risk can be a significant concern with stock investments.

Notes:

In evaluating assets, different weights may be given to different factors. In the present case, the following weights have been used: after-tax asset growth while living, assuming sale at client life expectancy (48); after-tax legacy to heirs, assuming death at client life expectancy (10); investment risk (23); liquidity (9); balancing of assets between the two retirees (2).

All aspects of the calculations relating to possible future events are subject to error, and those relating to estate planning are especially subject to change. Under current law, securities and real property is often subject to a step-up in basis at death, meaning that the tax basis for the heirs is assumed to be the value at time of death rather than at the time of the original purchase. It is assumed in this analysis that any such assets will be able to take advantage of this step-up, although in fact there are limitations and restrictions that may allow or disallow the step-up in any particular case.

For assets whose liquidation generates a taxable event, additional amounts may need to be liquidated to cover taxes. This fact has been taken into account in ranking assets for liquidation.

Appendix: Invested Assets

	Balance	Annual Cash Return	Annual Total Return	Owned by 2nd Retiree?	
IRA, 401(k), 403(b), 457 & other non-Roth balances	30,000	0.00%	6.67%		0.00% Surr. fee
Client's 401(k)	10,000	0.00%	6.00%		0.00% Surr. fee
Spouse's 403(b)	20,000	0.00%	7.00%	Yes	0.00% Surr. fee
Certificates of deposit	30,000	2.00%	2.00%		2.00% Penalty
Fabulous Fund Group mutual fund shares	40,000	3.00%	7.00%	Yes	3.00% Cap.gain
Consolidated Amalgamated Synergy Corp. common stock	50,000	1.00%	10.00%		1.00% Cap.gain
Universal Disturbance Corp. 2022 bonds	60,000	5.00%	4.00%	Yes	
Grandma's out-of-state munipal bonds	70,000	3.00%	3.00%		3.00% State tax
Client's whole life insurance policy	80,000	4.00%	7.00%		4.00% Gain
Spouse's non-qualified annuity	90,000	0.00%	5.00%	Yes	0.00% Surr. fee
Interest in Uncle Fred's turkey farm	100,000	5.00%	8.00%		5.00% Cap.gain
Spouse's Roth IRA account	45,000	4.00%	5.00%	Yes	
Other non-income-producing assets	720,000	0.00%	6.42%		0.00% Cap.gain
Primary residence	600,000	0.00%	6.50%		0.00% Cap.gain
Coin collection	120,000	0.00%	6.00%	Yes	0.00% Cap.gain