

Life & Legacy

Redefining retirement, one step at a time

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RETIREMENT PLANNING

Don't touch that retirement plan!

In an unsettled economy, is it tempting to dip into your IRA to ease the sting a bit? While that's certainly an alternative, consider these ways to stretch your income and preserve your retirement capital.

Nearly 20% of Americans made early withdrawals from their retirement savings accounts during the 12 months through January 2010, according to recent research by AARP. Considering the same? If so, know that you'll pay tax on those withdrawals. What's more, if you're under age 59½, you'll face an early-withdrawal penalty, too. And perhaps most troubling is that you'll lose the future growth potential of the funds you withdraw.

Consider the fate of a hypothetical 45-year-old man who withdraws \$10,000 from his IRA. He's in the 25% tax bracket and pays the 10% penalty, so he can actually spend just \$6,500, due to taxes and penalties. What's more, if the money had remained in his IRA and appreciated at 8% annually, it would have grown to \$46,000 by the time he was 65. "Taking an early withdrawal means you're giving up the benefit of compounding on that money—and a large piece of retirement income," says David A. Littell, who serves as a professor of taxation at the American College, a Bryn Mawr, Pennsylvania-based institution that provides training and development for financial services professionals.

Fortunately, adapting one or more of these strategies can help you navigate future financial emergencies without taking an early withdrawal.

Build your emergency fund. Holding three to six months of household expenses in an easily accessible savings account, in case of a job

loss or other emergency, is a good rule of thumb, according to Littell. However, he also advocates taking a more nuanced approach that factors in the number of wage earners in your household—a one-income family may want to have a larger emergency savings account than one in which both adults work—as well as your job security. "Many people who've been laid off are taking six months or longer to find a job," says Littell. "If your company is struggling, you might want to take that into account when determining how much to save."

Double-check your insurance coverage. Disability income and life insurance can help you protect your income stream in case of a medical emergency or death. Medical, homeowners' and liability insurance help guard against catastrophic losses. The appropriate coverage depends on the specifics of your situation. Your financial planner can help you review your existing policies and assess the need for any additional coverage.

Establish a home equity line of credit. Home equity lines of credit still offer low interest rates, and the interest may be tax-deductible, depending on your situation. That makes a HELOC a handy source of cash in an emergency. The only drawback: You won't be approved for a HELOC if you don't have the income to make loan payments—for example, if you've already lost your job. That's why Littell suggests establishing a HELOC when you're in solid financial shape, before any emergency occurs.

Who We Are:

Custom Wealth Management comprises a group of trained specialists who help business owners, professionals, executives and retirees understand complex estate, business succession, retirement and investment problems. Its associates are registered representatives of Lincoln Financial Advisors Corp.

“It’s really a bad idea to take out your retirement money for any reason other than retirement expenses,” Littell says. “But if you do some comprehensive financial planning, you won’t need to put your retirement savings in reverse.”

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TALK TO YOUR FINANCIAL PLANNER ABOUT:

- The adequacy of your current emergency savings, taking into account your sources of income, the size of your family, and your job security
- Whether your insurance coverage helps meet your needs
- Establishing a home equity line of credit as part of your financial safety net



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