WESTERN INDIANA
COMMUNITY FOUNDATION

visions IN PERSONAL PLANNING

Retirement Planning — How to Make It More Productive and Rewarding

Retirement planning is a hot topic in the media. National magazines devote entire issues to retirement. On television, advertisements promote new ideas about retirement. Even local papers feature profiles on newly minted retirees — though these "retirees" don't actually seem retired at all: they seem to be moving onward and upward!

What is clear is that life doesn't stop at age 65. Many people work well past that age, and many, many more continue to stay active in the community, whether as family caregivers or volunteering for favored charities (or both). Retirement can be a renewal — a way to start something brand new or to renew a lifelong dream.

However, there are many important financial decisions that require attention when a person reaches his or her sixties. It is the sort of careful planning that often requires a professional advisor. In this issue of *Visions*, we provide basic information about retirement planning and suggest how to make charitable giving a productive part of that planning.

Giving to causes and charities that improve our personal lives and community at large can be rewarding. For more detailed information about how charitable giving can enrich your retirement planning, be sure to send for our booklet, ***Retirement Plan Assets — Leaving More to Your Family and Charity***, or contact us today.

Sincerely,

Dale A. White
Executive Director

When the Nest Egg Hatches

Retirement planning requires a well-thought out approach because there are so many variables. One has to consider retirement age, sources of income, a standard of living, health and well-being and the effects of inflation. Changing one factor could have a ripple effect across your entire plan.

The first thing that most people do to plan for retirement is to start saving years in advance. One effective strategy is to contribute on a regular basis to tax-deferred retirement accounts such as an employer sponsored 401(k) plan or an individual retirement account (commonly known as an IRA). An individual can place pre-tax dollars into these accounts, and the money can grow tax-deferred. And when the individual reaches a certain age, he or she can take distributions from the account and it is usually taxed as ordinary income.

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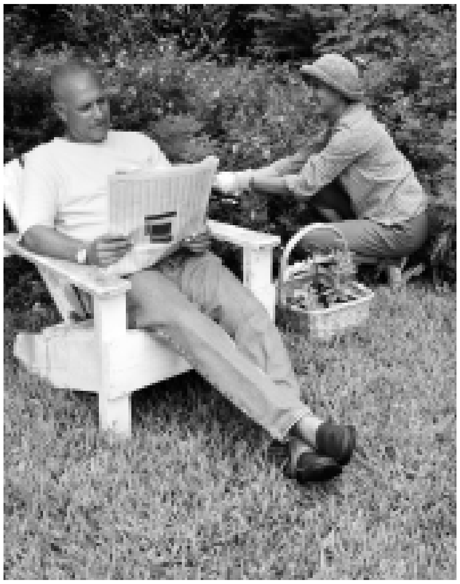
As you continue to save, the next step may be recognizing the right time to shift your investment strategies of your assets (both in retirement accounts and out). Small cap aggressive stocks might be a good choice for the portfolio of a younger investor, but not necessarily for someone entering retirement.



Another important decision is choosing when to take distributions. A tax-deferred retirement account such as an IRA or 401(k) generally can be accessed after age 59½ without a tax penalty. However, making plans that will postpone distributions from tax-deferred retirement accounts will give those assets additional time to grow tax-free (this means one has more to spend later). Of course, beginning at age 70½, most people must take required minimum distributions from these accounts. A certain percentage of the account must be distributed — a percentage that becomes increasingly larger with age.

Social Security — Safety Net or Safety Valve?

Social Security provides benefits to both retired and disabled workers and their families. Social Security is itself a media topic. Politicians and commentators have discussed the problems facing the program and how to fund the benefits paid out as the number of workers decreases in comparison to the number of recipients. While it was created to provide a safety net to prevent poverty, Social Security has become an integral part of retirement planning for most people.

The amount of the retirement benefit depends on the worker's primary insurance amount or PIA. The PIA is determined by calculating the worker's average indexed monthly earnings. Plus, there is the factor of when the individual decides to begin taking Social Security. Also, for retirees who have not reached "full retirement age" but have opted into Social Security, there is a cap on what they can earn each year without a reduction in benefits. Choosing when and how to take Social Security benefits is not an easy decision, and requires careful thought.

A Creative Gift Idea: *Donors who do not entirely rely on Social Security to make ends meet sometimes choose to make charitable gifts with the payments. Since the money was originally meant as a safety net to keep older Americans from falling into poverty, giving charities this money is a way to further benefit the community. We do appreciate the creative ways that our donors make their gifts.*

TESTAMENTARY GIFTS OF RETIREMENT ASSETS

More and more astute donors use retirement account assets in their charitable gift planning. The reason is that retirement account assets left to family members (other than your spouse) may be subject to higher taxation than other types of assets. Remember all the income that has built up inside your tax-deferred retirement account? When you take distributions from that account, the money is taxed to you as ordinary income. And, in the event you leave your retirement accounts to someone else, whoever takes money from that account will be taxed on the distribution as ordinary income.

However, you can use retirement account assets to fund a charitable bequest and leave different assets to family and friends. This could reduce taxes that otherwise would be imposed on those assets, which means you can leave more to loved ones.

Plan for Bumps in the Road

Financial planners recommend that your retirement plans have some flexibility. There are many different factors beyond anyone's control that could change your situation:

Inflation: The cost of things usually goes up — what $1 buys today is less than what it bought years ago (just think of food prices!)

Medical Expenses: Understanding medical insurance coverage (both private and state-sponsored) is vital to getting the necessary care without paying too high a cost.

Taxes: In retirement, most people earn less income and that income is more favorably taxed. However, Congress and state legislatures do not always keep the status quo when it comes to taxes.

Longevity: Believe it or not, this could be a problem! Exhausting one's savings over time is possible.

While there are things out of your control, a sensible retirement plan can accommodate problems without changing the way you live.

A GIFT OF A REMAINDER INTEREST IN A HOME

This is an interesting sort of charitable gift that many people don't know about. The donor keeps a life estate for him or herself (and for a spouse), and the residence goes to the charity later. So you keep living in the same house and you enjoy a charitable deduction right now.

Of course, there are certain rules that need to be followed (i.e. you must own your home outright). But many donors find this kind of gift a very personal expression of support for a favorite charity. It is an opportunity worth exploring — why not see if it's right for you?

Deciding What Is Important

Another reason to keep your retirement plans flexible is so that you can change your direction later in life:

- Moving to a different part of the country
- Increasing travel
- Celebrating a special anniversary or event
- Enjoying grandchildren (and great-grandchildren!)

When your life changes, your retirement plans may need to change.

WHAT ABOUT THE IRA CHARITABLE ROLLOVER?

In 2006 and 2007, a temporary measure allowed donors age 70½ and older to make direct tax-free transfers from an IRA to charity. The transfer counted toward the Required Minimum Distribution for the tax year, but the transferred amount was also excluded from the donor's income (up to $100,000 a year). At the time of publication, many in the philanthropic community hoped Congress would revive the IRA Charitable Rollover and there were bills pending to do so. Please check with your advisor or contact us to learn the current status of this splendid gift opportunity.

How to Learn More

Everyone needs to plan for retirement, but no two approaches will be exactly alike. Professional advisors such as attorneys, CPAs and financial planners can offer timely and effective advice. Being informed is the first key step. And we hope charitable giving will be a part of your plans.

If you are interested in learning more about how charitable giving can enhance your retirement planning — both personally and financially — please send for our new booklet, ***Retirement Plan Assets — Leaving More to Your Family and Charity***. It is available to you at no cost by returning the enclosed reply card. We look forward to hearing from you.

An Important Reminder

An important factor that can bring purpose to your retirement planning is to include philanthropic intentions. Gifts to qualified charities can provide helpful income tax deductions. For instance, a life income gift such as a charitable remainder trust can be a puzzle piece that fits neatly into your overall planning picture: the trust that you fund can both provide a lifetime income to you (and/or a spouse) with the rest going to charity. Plus, there is a charitable deduction based on the value of the expected trust remainder. Or, you may want to simply leave a charitable bequest to fulfill your charitable intentions. Please call us to learn more about including charitable giving in your retirement plans.

WESTERN INDIANA COMMUNITY FOUNDATION

Western Indiana Community Foundation
Dale A. White
Executive Director

Attica Community Foundation
P.O. Box 161
Attica, IN 47918
Phone/Fax: (765) 764-1259
E-mail: info@wicf-inc.org

Southeast Fountain Community Foundation
P.O. Box 95
Veedersburg, IN 47987
Phone: (765) 397-3771
E-mail: info@wicf-inc.org

Covington Community Foundation
P.O. Box 175
135 S. Stringtown Road
Covington, IN 47932
Phone: (765) 793-0702
Fax: (765) 793-0703
E-mail: info@wicf-inc.org

visit us on the web at:
wicf-inc.org