SONS OF NORWAY

ADVISOR

HELPING YOU FIND THE PATH TO A SECURE FINANCIAL FUTURE

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Tax Planning for Your Retirement

Every year I see the same thing: the end of tax season getting people thinking about and making plans for their future. For some this means thinking in the short term and inquiring about changes in their portfolio for next year's taxes. For others it means thinking in longer terms, like future planning for those getting close to retirement age.

I get a lot of calls from Sons of Norway members with questions about both issues. More specifically, many want to know what they can do differently to ease their future tax obligations or how tax-deferred investments affect their retirement planning. In fact, these are such common concerns amongst Sons of Norway members that I thought it would be a good idea to devote an entire issue of the Sons of Norway Advisor to these topics.

If you have ever wondered whether over funding your 401K makes the most tax-sense, or if you are a baby boomer facing the challenges of preparing for retirement, then this issue is for you. Both are topics of importance because they can significantly impact your plans for the future, for retirement and beyond. This edition of the Sons of Norway Advisor will discuss strategies, products and planning tips to help ease your mind.

I hope that you will find the information to be of great interest and worth sharing with other friends, family or lodge members. If so, I invite you to lend them your copy of the Advisor so they can benefit from it also. In closing, I hope you are enjoying your springtime and want to remind you that I am always available to answer any questions you might have about topics covered in this or other issues of the Advisor.

Inside This Issue

Fine Tune Your Retirement Savings

Ken Thul

A common question that people have about saving for retirement is, "Which plan is best for me?" Employer sponsored retirement savings plans such as 401K, 403B, 503C, 457 (there are more) plans are great retirement accumulation plans. These plans offer great benefits such as discipline, tax deductible deposits, tax deferred growth, and many employers match your deposits up to a certain point.

However, there are some negatives to be aware of. These plans have pre-retirement withdrawal penalties and all of the income received at retirement time is taxed as income. Although some pre-retirement hardship withdrawals are allowed without penalty, many view the restrictions to be overbearing. Also, the ordinary income produced by these plans must be counted as income to determine if your Social Security is income taxable. This means you could wind up paying taxes on your Social Security, thus reducing the amount of spendable income you have from Social Security. What if you need some or all of your money for an emergency or an opportunity?

The main advantages of the above plans are current income tax deductibility of the deposits and the employer match. If you are paying home mortgage interest and raising a family, you may not need the tax deduction of your deposits. If that's true for you, I would suggest you only fund that plan to the extent necessary to get your employer's matching deposits. With the balance of your long term saving dollars, I suggest you have your own supplemental, tax deferred, liquid plan that has one important, additional feature: guaranteed self completion if you die before you retire.

If you're fortunate to live to retirement, the cash value can provide tax advantaged supplemental retirement income that you cannot outlive and, if arranged properly, that income will not be counted to determine if your Social Security retirement pension is taxable. If you die before retirement, the death benefit guarantees income tax free self completion of your plan and financial security for your loved ones. Products like a Nordic Elite Universal Life policy can give you total control, tax deferred accumulation of the cash fund, tax favored distributions during your lifetime, income tax free distribution at time of death, pre-retirement liquidity for emergencies or opportunities, and options. To learn more about how life insurance can supplement your retirement, contact your Sons of Norway Financial Benefits Counselor for the details.

Retirement Planning for the Self-Employed

Currently there are more than 10.5 million* people who define themselves as self-employed. That translates into millions of Americans who don't have access to traditional employer-sponsored retirement plans. With so many self-employed workers, retirement planning is taking on a new facet and creating all sorts of new concerns. If you are self-employed, are there retirement plans available? Are there savings options? The answer is yes. In fact there are at least three great options to choose from.

SEP's: Simplified Employee Pensions are generic retirement plans that allow you to contribute and deduct up to 20% of self-employment income (25% of salary if you're an employee of your own corporation).

Keogh plans: Keogh plans are the self-employed equivalent of corporate retirement programs. They come in two basic flavors: profit-sharing plans and defined benefit pension plans. Annual contributions to Keogh profit-sharing plans are based on a percentage of self-employment income or compensation and subject to a $45,000 ceiling.

Solo 401(k): With a Solo 401(k) you can contribute up to 100% of the first $15,500 of your 2007 compensation or self-employment income ($20,500 if you'll be 50 or older at year-end). On top of that, you can contribute and deduct an additional amount of up to 25% of your compensation income, or 20% of your self-employment income.

*Sept. 4th, 2006 Census Bureau Report

Preparing for Retirement as a Baby Boomer

Len Carlson

Those of you born between 1946 and 1964 are part of an increasingly aging generation. In fact, in 2006, almost 8,000 baby boomers turned 60 each day. This makes for a large group of Americans who are nearing retirement and all facing the same challenge: creating adequate savings that will carry them another 20 years, or more, beyond retirement.

The reason so many Americans are facing the same challenge is because, as a group, boomers are not planning for retirement as efficiently as they should. Unlike their depression-era parents before them, many baby boomers are not saving enough, and when they do, they are often not saving it very wisely. Instead, once they enter retirement age, baby boomers begin new careers in which they will make lifestyle choices to balance a life of work and leisure, but never plan to fully retire because in most cases, they can't afford to. They have to worry about providing an income to supplement Social Security, making up for a lack of 401-k participation, paying for health care and providing for surviving spouses.

If you count yourself among this group, all is not lost. There are things you can do to make the transition to retirement easier.

1. When it comes to savings, baby boomers should automatically enroll in their company's 401-k plan. By enrolling, you not only are saving money for your retirement, but you actually can reduce your taxable income because your contribution is pre-taxed dollars. A good recommendation is to contribute at least the amount matched by the employer. In 2007, the maximum pre-tax contribution is $15,500, with a catch-up amount of $5,000 if you are over 50. For those of you who don't have access to a 401-k, you can establish a Traditional or Roth IRA. For this option, contribution limits are $4,000 a year and, if you are over 50, you could add an additional amount of $1,000.

2. Don't count solely on the equity in your home or investment properties to help fund your retirement. Just because you may have $500,000 of equity in your house with hopes of turning this into an income stream, it's not so simple. Remember, downsizing comes at a cost. There's the cost of buying the new home, selling the old home, moving, setting up new services, buying new furnishings, and so on. After factoring in all of the costs, there's a good chance that you have not released enough money to provide the retirement income that is needed.

3. Long Term Care insurance can protect the retirement nest egg you worked so hard to build. The simple fact is, baby boomers are living longer, with an increasingly strong chance that they will need to spend some time in a nursing home or assisted care facility. If and when that time comes, are you able to pay the $4,000+ per month cost for the care you require? By planning ahead and having a Long Term Care policy, you won't have to worry about losing your retirement savings to pay for nursing home costs.

4. Prepare for retirement by projecting your retirement income, needs and expenses. Baby boomers need to factor in what they want to do at retirement so that they can determine what amount of money is needed. A good beginning exercise for everyone is to review your Social Security annual report, as this will tell you your projected Social Security income at the different ages. We all accept the fact that nowadays Social Security will not be enough to solely fund our retirement. So, doing this exercise will give you a clearer picture of how much you will need to save or earn during retirement to provide for the lifestyle you want. In most cases after this review, there should be incentive enough to start saving more money or become more aggressive with the amount you are saving.

One of the goals of Sons of Norway is to help baby boomers prepare for a long and financially secure future. To learn more on how you can prepare for the future, call Sons of Norway at (800) 945-8851.

Advisor Answers

Dear Advisor Answers,

I've been reading a lot about annuities recently in newspapers and financial magazines. Some reporters say they are a good investment, but others say they aren't. I'm having trouble deciding if annuities are a good investment option or not. What are your thoughts on them?

Jonathan M., Kansas City, MO

Jonathan,
That's a great question! I've also read a lot of differing, yet equally valid, opinions by various writers about annuities. In my opinion, when you get right down to it, I think annuities are a good investment if you are looking for a safe, conservative investment option.

The reason I say that is this: annuities have three unique qualities that make them a safe investment. First, most annuities have a guaranteed safety of principle. This means that no matter what happens in the market or the economy, you will never have less than what you invested. Second, annuities can provide you with a lifetime income. It doesn't matter if you outlive your principle, you will still receive a set income for the rest of your life. Third, the remaining proceeds from an annuity automatically pass to your heirs without probate or probate fees. This means that once the annuity is set up, you never have to worry about your heirs losing part of it to pay probate. Overall, I think these are three great reasons to consider annuities for your future investments.

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