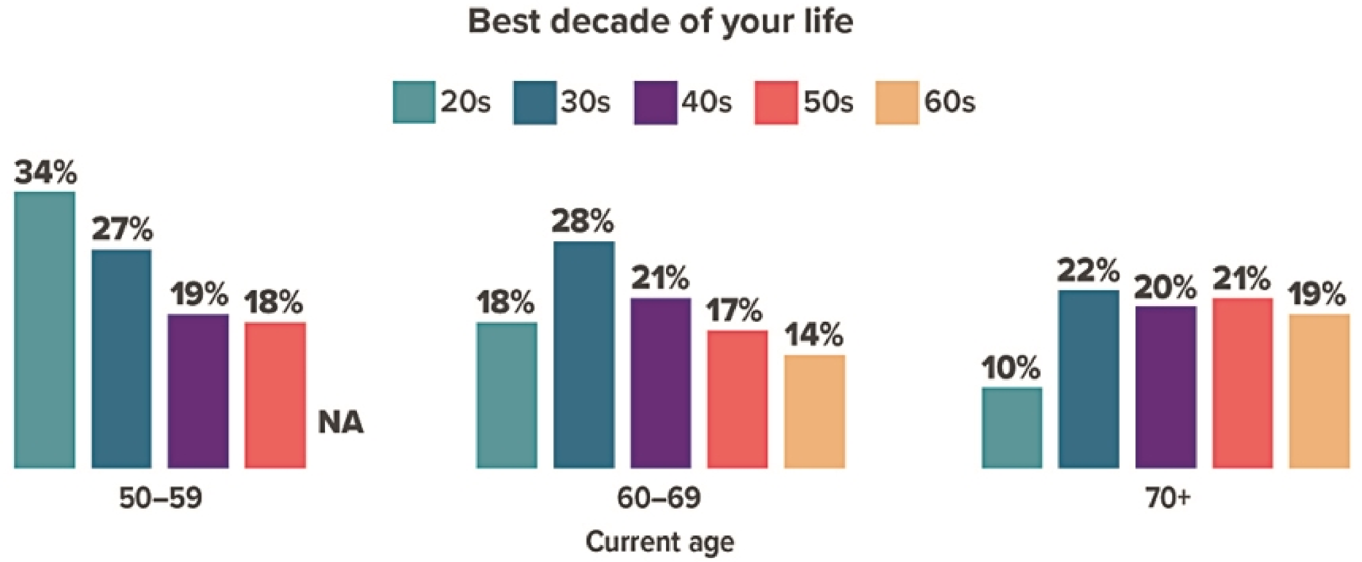
Cindy Menker, CFP®, CPA, MBA
Financial Planner
Contour Financial, Inc.
9031 W 151st Street • Suite 107 • Orland Park • IL • 60462
708-460-3800
egonmenker@gmail.com • ContourFinancial.com

Happy Now but Happier When?

Despite the difficulties of aging, 86% of adults age 50 and older say they are happy, though only 21% say they are very happy, while 65% say they are pretty happy. It's probably not surprising that those who are in excellent or very good health are much more likely to say they are very happy.

Although a large majority of older adults are happy with their current prospects, about two-thirds say their best decade came before age 50.



Source: AARP, 2024 (Percentages do not add up to 100% due to skipped and "don't know" responses and some respondents choosing decades older than 60s.)

QLACs: Your Retirement Accounts Can Act Like Pensions

These days, most people who work in the private sector don't have pensions, so they can only guess how long their retirement savings might need to last. Those who withdraw too much or live longer than expected could eventually run out of money; others may withdraw too little and live more frugally than might be necessary.

A qualified longevity annuity contract (QLAC) is a special type of deferred income annuity purchased in an IRA or a qualified retirement account such as a 401(k). Lifelong income payments don't begin until the contract owner reaches an advanced age (up to age 85). The longer the payouts are deferred, the higher they will typically be.

With a QLAC, retiring workers can use a portion of their tax-deferred savings to guarantee a certain income stream later in life — a time when they might have little or no ability to work and often face a greater risk of needing long-term care services.

Chances that a 65-year-old nonsmoker, with excellent health, will live to various ages

Age	Male	Female	One member of a couple
85	64%	73%	90%
90	43%	53%	73%
95	20%	29%	43%
100	6%	10%	15%

Source: Longevity Illustrator, Society of Actuaries, 2024

Better your odds

In 2019, the Employee Benefit Research Institute ran a simulation to determine whether using a portion of a 401(k) plan balance to fund a deferred income annuity at age 65 (with payments delayed until age 85) might help improve retirement savings outcomes. The results suggest that low-wage workers, who depend more on Social Security, may have little need for this type of longevity protection, but participants with incomes in the top 50% are more likely to benefit. For this group, the probability of running out of money decreases when an annuity is purchased with 5% to 25% of assets.[1]

The SECURE 2.0 Act raised the amount taxpayers are allowed to invest in QLACs from $155,000 per person in 2022 to $200,000 per person in 2024 and $210,000 in 2025, as the limit is now indexed to future inflation. Plus, a previous rule that limited QLAC purchases to 25% of the taxpayer's total retirement account balances was eliminated.

Despite new federal laws and regulations designed to promote wider adoption of QLACs, only about 4% of defined contribution plans offer them in 2024.[2] Consequently, retirement plan participants who are interested in QLACs might have to roll their funds into an IRA before they can purchase one.

How QLACs work

QLAC funds are exempt from the taxable required minimum distributions (RMDs) that must normally be taken from tax-deferred plans starting at age 73. So, for retirees who don't need RMD income to support their lifestyles, buying QLACs could help reduce their annual tax bills.

Payments must begin no later than the first day of the month following the participant's 85th birthday. Like other distributions from tax-deferred retirement plans, payments from QLACs are taxable as ordinary income. (With nonqualified annuities purchased outside of a retirement plan, only the earnings portion is taxed.)

Income payments can be continued throughout the lifetime of a designated beneficiary (usually a surviving spouse), and some annuities feature death benefits that return unused premiums to heirs. Of course, these options will either cost more up-front or reduce income payments later in life. Without the optional death benefit, insurers will generally keep the premiums paid if the annuity owner dies before (or after) the payout start date.

Cash-out provisions are not allowed in QLACs. Investors should understand that the money invested in the annuity is no longer a liquid asset, and they may sacrifice the opportunity for higher investment returns that might be available in the financial markets. (Nonqualified annuities may offer a cash-out option that permits withdrawals during the deferral phase but surrender charges typically would apply.)

Annuities are insurance-based contracts that have exclusions, contract limitations, fees, expenses, termination provisions, and terms for keeping them in force. Any guarantees are contingent on the financial strength and claims-paying ability of the issuing insurance company.

1) Employee Benefit Research Institute, 2019

2) Plan Sponsor Council of America, 2024

Life Insurance in Retirement

What role can life insurance play in your retirement plan? Most of us think of life insurance as protection against financial loss should we die prematurely. But when we reach retirement and the kids are all self-sufficient, do we still need life insurance? The answer is maybe. Here are some situations where life insurance may make sense for retirees or those close to retirement.

Provide a source of retirement income

While life insurance is designed to protect against unexpected economic loss, cash value life insurance also may provide a source of income during retirement. Earnings on the cash value accumulate tax-deferred, and in some instances, cash-value distributions can be received income tax-free. However, loans used to access cash values from a life insurance policy will reduce the policy's cash value and death benefit, could increase the chance that the policy will lapse, and might result in a tax liability if the policy terminates before the death of the insured.

Help pay for long-term care

Some cash value life insurance policies provide multiple sources of protection. Along with the death benefit and potential cash value, these policies may also provide a long-term care benefit. Often, these policies allow for a portion or all of the death benefit to be "accelerated" if used for the payment of qualifying medical and long-term care expenses.

Provide for a dependent family member

Sometimes, even in retirement, there are family members who depend on you for financial and/or custodial support. Should you die unexpectedly, life insurance may help provide funds needed to support dependent family members with disabilities.

Replace income for a surviving spouse

While Social Security provides retirement income for many of us, at the death of a spouse, his or her benefits end, reducing the total benefits available to the surviving spouse. Life insurance can be used to replace the loss of income for the surviving spouse.

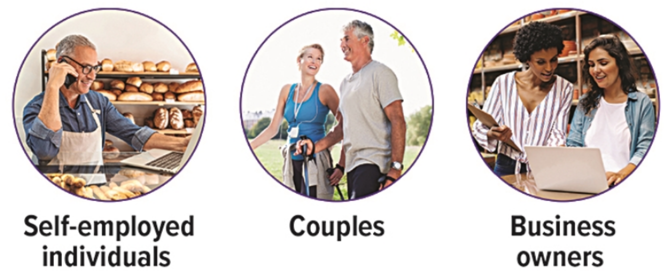
Pay off debt

While past generations often retired with little or no debt, it is not uncommon for today's retirees to leave the workforce while still carrying a mortgage, car loan, and credit card debt. Life insurance can provide the cash to pay off these debts, which is especially beneficial for a surviving spouse.

Help cover final expenses

Unfortunately, the expense of dying is often overlooked or underestimated. Uninsured medical bills, funeral costs, debts, and estate administration costs can add up. Typically, these expenses are paid in a lump sum, which can reduce savings for surviving spouses and dependent family members. Proceeds from life insurance can be used to help pay for these final expenses, which may help preserve savings for other needs.

Who may benefit from life insurance in retirement?



Leave a legacy

For many approaching retirement, as well as for those already there, a primary concern is having enough money to live comfortably. While conserving savings and keeping track of spending in retirement are important, all too often retirees will forgo spending on themselves in order to fulfill a desire to leave a legacy. Having life insurance can help you feel freer to spend more in retirement because you know you'll be leaving something behind for your loved ones.

Life insurance provides protection for your family's financial future should you die during your working years. However, life insurance may provide other benefits that can be useful during your retirement. Whether life insurance should be part of your retirement plan is best determined based on your individual circumstances and goals. You may want to talk with an insurance or financial professional before making this decision.

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. Before implementing a strategy involving life insurance, it would be prudent to make sure that you are insurable. As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. In addition, if a policy is surrendered prematurely there may be surrender charges and income tax implications. Any guarantees associated with payment of death benefits, income options, or rates of return are based on the financial strength and claims-paying ability of the insurer.

A Backup Plan for Your Paycheck

Your ability to earn a paycheck may be your most valuable asset. In a 2024 survey, 48% of Americans without disability insurance said their household would have to use personal savings to pay daily expenses in the event of a disability, and 26% said they would have to tap retirement savings.[1]

Social Security offers some disability protection, but only one out of three applications is approved, and it typically takes almost eight months for an initial decision and seven more for an appeal.[2] The average monthly Social Security Disability Insurance payment of $1,581 would not meet the needs of most families.[3]

Unfortunately, the odds of a disability are higher than you may think. The Social Security Administration projects that almost one out of four 20-year-old workers will experience a disability before they reach their full Social Security retirement age of 67.[4]

Portable individual coverage

If you're concerned about the potential effect of losing your paycheck due to sickness or injury, you might consider an individual disability income insurance policy, which could replace a portion of your income up to policy limits. Your employer may offer long-term disability coverage, but group plans typically don't replace as large a percentage of income as an individual plan could, and benefits from employer-paid plans are taxable to the employee if the premiums were paid by the employer.

An individual disability income insurance policy will stay in force regardless of your employment situation as long as you pay the premiums. If you have employer coverage, those benefits would generally be paid first, and your individual policy would pay any benefits that are higher than the employer coverage. Benefits may be paid for a specified number of years or until you reach retirement age. If you pay the premiums yourself with after-tax dollars, benefits are usually free of income tax.

Unlike group policies, individual policies can generally be customized to meet your specific needs. There are a variety of optional riders available at additional cost that provide the potential for higher benefits and/or for benefits to be paid under a broader range of circumstances.

Disability premiums are typically based on your age, gender, occupation, and the amount of potential lost income you are trying to protect, as well as the specifics of the policy and any additional riders. A complete statement of coverage, including exclusions, exceptions, and limitations, is found only in the policy. Carriers have the discretion to raise their rates and remove their products from the marketplace.

1) LIMRA, May 2, 2024

2) Center on Budget and Policy Priorities, August 6, 2024

3) Social Security Administration, January 2025

4) Social Security Administration, August 2024

This is a resource that will answer your most important financial question, namely:

- If employed – When can I retire?
- If not employed – Can I stay retired?

Contour Financial will answer this question, suggest alternative scenarios, if needed, and implement investment strategies in order to reach your objectives.

Customized strategies are developed and implemented. Personalized service is provided by Certified Financial Planners (CFP) and/or Certified Public Accountants (CPA) to clients. Investment, retirement, tax planning & preparation, estate, insurance, cash flow and education planning are all integral parts to the process.

Contour Financial is a private wealth management business located in Orland Park, Illinois. We work primarily with middle income and wealthy clients. As a long-term National Association of Personal Financial Advisors (NAPFA) fee-only firm, all compensation is fully disclosed. For clients seeking investment management by our firm, assets are held at Charles Schwab Institutional, an industry leader.