FREEDOM FINANCIAL ADVANTAGE
PREPARATION FOR TODAY AND TOMORROW
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Cost of Early Retirement Plan Withdrawal by Emerald (adapted)

It's not a good sign when people raid their retirement plans to pay bills, college tuition, or auto repairs, but more workers have been borrowing from their accounts or taking hardship withdrawals in the past few years.

Although it's understandable that people might turn to their retirement accounts for a source of ready cash, it is generally not a good idea. Fifty-five percent of employees who took a cash distribution when changing jobs said they regretted having done it.[3]

Keep Your Money Working

With certain exceptions (explained later), a 10% federal income tax penalty applies to early withdrawals (before age 59½) from tax-deferred plans such as IRAs and employer-sponsored retirement plans. That's a significant deterrent in itself, but the greater penalty could be the loss of future earnings needed for retirement.

Consider the impact of a $10,000 early withdrawal from a traditional IRA. Not only could the distribution be subject to the penalty ($1,000) but also income taxes ($2,800 for someone in the 28% tax bracket), which could leave a net amount of $6,200. On the other hand, if the $10,000 principal was left in the tax-deferred account, in 20 years it would have the potential to more than triple, assuming a 6% average annual return; in 30 years, it might reach $60,000 (see graph). This hypothetical example is used for illustrative purposes only and does not reflect the performance of any specific investment; actual results will vary.

If you change jobs, you may be able to leave your retirement account assets in your former employer's plan. Another option is to roll the assets to a traditional IRA. A properly executed trustee-to-trustee transfer to your own IRA could help preserve the tax-deferred status of the funds and potentially avoid unwanted current tax consequences and penalties. It may also give you more control of the assets, open up additional investment options, and help you manage overhead costs.

Exceptions to the Penalty

If life deals you a bad hand, or you have other reasons to access your retirement funds earlier than planned, there are circumstances in which the penalty is waived on early withdrawals before age 59½ (although distributions would still be subject to ordinary income tax):

- Your death or permanent disability.
- A series of substantially equal periodic payments (based on life expectancy) from an IRA or a former employer's plan that continue for at least five years or until age 59½, *whichever occurs later*.
- Payment of unreimbursed medical expenses that exceed 10% of adjusted gross income (in 2013).
- *Employer plans only:* If you are at least age 55 when you terminate or sever employment (or turn 55 by December 31 of the same year), all distributions avoid the penalty.
- *IRAs only:* The penalty is waived when the funds are used for qualified higher-education expenses or a first-time home purchase ($10,000 lifetime maximum).

If you take an early withdrawal from a tax-advantaged retirement account, you could lose the opportunity for that money to continue growing on a tax-deferred basis. Let Freedom Financial Advantage, LLC help you accurately assess your retirement income needs. Contact us today!

1) Reuters, February 17, 2012
2) advisorone.com, January 17, 2012
3) advisorone.com, January 26, 2012

FINANCIAL WORKSHOPS

RADIO BROADCAST

ISMs:
Insightful Spiritual Messages
Mondays @ 7:30pm
WGIV - Charlotte
103.3FM 1370AM
www.wgiv.net

Maggiano's Little Italy
Sunday, February 17th
SouthPark
Charlotte, NC 28211
2:30pm-4:30pm

Maggiano's Little Italy
Sunday, March 17th
SouthPark
Charlotte, NC 28211
2:30pm-4:30pm

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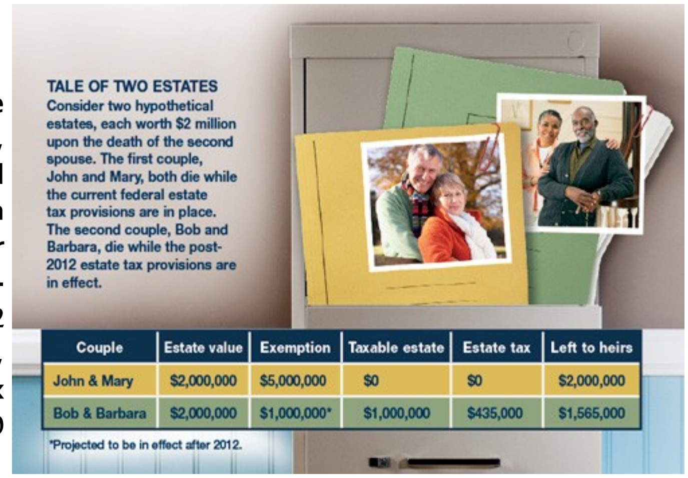
"Everything does go in a circle."
~Cyndi Lauper~

In photo: Eden Peacock Wilkinson
Granddaughter of Gilbert & Barbara Peacock

Insurance for Two Could Benefit Your Heirs

by Emerald


TALE OF TWO ESTATES
Consider two hypothetical estates, each worth $2 million upon the death of the second spouse. The first couple, John and Mary, both die while the current federal estate tax provisions are in place. The second couple, Bob and Barbara, die while the post-2012 estate tax provisions are in effect.

Couple	Estate value	Exemption	Taxable estate	Estate tax	Left to heirs
John & Mary	$2,000,000	$5,000,000	$0	$0	$2,000,000
Bob & Barbara	$2,000,000	$1,000,000*	$1,000,000	$435,000	$1,565,000

*Projected to be in effect after 2012.

Since the federal estate tax was established in 1916, the amount exempted from the tax has been raised substantially over time. The $5 million exemption for 2011 and 2012 is the highest in history, and the 35% top estate tax rate is the lowest in 70 years.[1]

However, these generous provisions may not last. After 2012, the federal estate tax is currently scheduled to revert to a $1 million exemption and a 55% top tax rate. Many families with a home and large retirement accounts could easily have estates worth $1 million or more. A *survivorship life insurance* policy is one way to help heirs pay estate taxes, probate costs, and other final expenses.

Preserving a Legacy

Also called *second-to-die insurance*, a survivorship life insurance policy insures two people and pays a benefit after the death of the second person. The premiums are usually less expensive than premiums for a single life insurance policy, because they are based on the life expectancies of both insured individuals.

The unlimited marital deduction allows assets to pass to a surviving spouse free of federal estate taxes, so estate taxes typically do not become an issue until estate assets pass to non-spouse heirs. Thus, a survivorship life insurance policy could pay a benefit at the time it may be needed most.

Moreover, by purchasing the survivorship policy in an irrevocable life insurance trust, the proceeds may not be considered part of your taxable estate. The use of trusts involves a complex web of tax rules and regulations. You should consider the counsel of an experienced estate planning professional and your legal and tax advisors before implementing such strategies.

Even if you are not concerned about the estate tax, a survivorship life policy could be a relatively inexpensive way to leave a legacy, especially considering that an individual life insurance policy may be more expensive or difficult to obtain later in life. Survivorship life might also be used to insure business partners.

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.

With the uncertain future of the estate tax, now may be a good time to consider a survivorship life insurance policy. Even if the estate tax doesn't apply to your estate, the insurance proceeds could benefit your heirs or a favorite charity. Contact Freedom Financial Advantage, LLC today to help you with your life insurance needs.

1) Internal Revenue Service

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