

SPECIAL RETIREMENT CONSIDERATIONS

Unique Factors When Considering Your Retirement Strategy



Creating a retirement strategy that will help you meet your goals involves understanding both your cash flow needs and the sources of your income.

In addition to prioritizing your goals and balancing the financial resources you need to achieve them, there are some special considerations for affluent individuals and families approaching retirement.

CONCENTRATED POSITIONS IN COMPANY STOCK

Many executives and retirees have a large amount of their net worth tied up in the stock or stock options of a single company. If you find yourself in this situation, you may want to discuss the possibility of diversifying a portion of your stock. Northern Trust's proprietary financial modeling application incorporates our portfolio management approach to help quantify how reliant you are on your concentrated stock position to achieve your financial goals. Utilizing these sophisticated analytics, along with enhanced hedging and liquidity strategies and a wide range of investment options, the Northern Trust investment solutions team can help you develop a strategy for diversifying or managing the risk associated with your concentrated single stock position.

REAL ESTATE AS AN INCOME SOURCE

Many affluent individuals who have not yet retired plan to sell their primary residence when they retire. Many will receive income from commercial or privately held real estate. If you are planning to use real estate as a source of retirement income, there are legal and tax considerations that can make a big difference as to how much you have available and when. For example, one consideration is whether the property qualifies as your principal residence. You should seek professional legal and tax advice as part of your planning for incorporating these assets into your retirement plans.

OTHER NON-FINANCIAL ASSETS

Wealthy families often hold a significant portion of their assets in non-liquid assets, such as family businesses, limited partnerships and partnership interests, minerals, oil and gas interests, copyrights, patents and royalties. Northern Trust offers professional management, consulting and administration services to provide active oversight of these assets.

NON-QUALIFIED DEFERRED COMPENSATION PLANS

As a key employee in a larger organization, you may have a non-qualified deferred compensation plan as part of your overall compensation package. These plans offer several benefits, including:

- The potential to reduce your overall tax liability by deferring current income;
- No annual limitations on contributions;
- No penalties for early distributions or mandatory distributions at age 70½; and
- The same tax deferral as a qualified plan.

However, non-qualified plans must meet certain legal requirements. For example, the amount of deferred compensation must remain available to your employer's creditors. As a result, assets set aside for retirement within a non-qualified plan may be at greater risk of substantial loss.



Be sure to include your non-qualified plan in your inventory of retirement plan assets and discuss how it may fit within your overall cash flow and investment strategy with your advisor.

PROTECTING YOUR CURRENT INCOME

If you are still working, and especially if you have a number of years before you retire, protecting your current income through disability insurance is an important part of retirement planning. If you have a disability insurance policy, check the plan's definition of disability, waiting period, length of payments, inflation protection and other key features. If you are a business owner, it's even more important to protect yourself and your business from the potentially devastating effects of disability. You may want to consider overhead or key person insurance as well.

Don't overlook the benefits of continuing life insurance as you approach retirement. You may feel you no longer need these policies. But in retirement planning, life insurance can help you equalize inheritances among your children. Life insurance can provide funds that are free from estate taxes or provide funds to pay taxes and other expenses. Life insurance offers many benefits for transferring wealth to the next generation, such as no income tax for the beneficiaries. Life insurance can also be an effective tool for carrying out philanthropic desires.

Finally, don't forget property and casualty insurance. This type of insurance protects you from having to divert valuable resources to pay for damages due to fire, theft, weather and other unforeseen events.

FOR MORE INFORMATION

To learn more, contact a Northern Trust professional near you or visit northerntrust.com/retirewell.

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