

..... Exceptional Care, Exceptionally Close .....

# Welcome!

*Generating Income in Retirement*

May 14, 2021

A Zoom Webinar!

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1

## Torrance Memorial Highlight

### Path to normalcy. . .

- **As of Tuesday afternoon, ZERO COVID inpatients!**
- **Visitor Policy – extended hours effective May 4**
- **Volunteers returning**
- **Vaccination doses to date = 27,438 (as of 5/11/21)**
- **Continue mask wearing, temp screening, distancing**
- **National Hospital Week – May 9-15**

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2

## Types of Planned Gifts

1. **Bequest** – gift through will, living trust or designation in a qualified retirement plan.
2. **Immediate Charitable Gift Annuity** – Simple contract between donor and the Torrance Memorial Foundation whereby lifetime payments are made to one or two individuals.
3. **Deferred Charitable Gift Annuity** – Annuity payments are deferred until a specified date in the future.
4. **Charitable Remainder Trust** – Trust that provides fixed or variable payments to named beneficiaries for life or a specified term of years.
5. **Retained Life Estate** – Gift of remainder interest in home or farm. Donor retains the right to live in the home for life.
6. **IRA Beneficiary** – Naming Torrance Memorial as the beneficiary of your retirement accounts (percentages can be designated as desired)

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3

## IRA/401k Beneficiary Designations

- Provides tax benefits for heirs of pre-tax IRA, 401k
- You pay income tax on your IRA RMD\*
- No different for your heirs when inheriting IRA or 401k
- No tax liability when naming Torrance Memorial
- Use other assets to pass along to heirs

\*RMD=Required Minimum Distribution

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4

## Resource for Planned Giving

[www.TorranceMemorialFoundation.org/planned-giving](http://www.TorranceMemorialFoundation.org/planned-giving)

- Learn about the different arrangements available
- Plug in some numbers in the “gift calculator” to get an idea of how this type of gift might work for you
- **Download a FREE estate planning kit**
- Contact Sandy VandenBerge at (310) 784-4843  
sandy.vandenberge@tmmc.com



Financial Health articles - [www.torrancememorialfoundation.org/News](http://www.torrancememorialfoundation.org/News)

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5

## How to Donate to Torrance Memorial Medical Center

### Online

<https://www.torrancememorialfoundation.org/Donate>

### By Phone

Please call Torrance Memorial Foundation at 310-517-4703.

You may charge your gift to your credit card or make a gift pledge.

### By Mail

Check or credit card information to: Torrance Memorial Foundation  
3330 Lomita Blvd.  
Torrance, CA 90505

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6

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# Generating Income in Retirement

## PRESENTERS

*Contact information for each follows*

- Gregory Schill, CFP® IRAs & RMDs
- Stuart Tsujimoto, CFP® Income-generating charitable gifts
- Karen Pryor Reverse Mortgage

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7

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# Generating Income in Retirement

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8

## Disclosure

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9

## Agenda - Greg

- Sources of Income in Retirement
- Required Minimum Distributions, Qualified Charitable Distributions (QCD) and Qualified Longevity Annuity Contract (QLAC)

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10

## Income Sources

### Defined Benefit Income Sources

- Social Security
- Pension, FERS, Military, Cal STRS, CalPERS
- Annuity

FERS = Federal Employees Retirement System  
Cal STRS = CA State Teachers Retirement System  
CalPERS = CA Public Employees Retirement System

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11

## Income Sources

### Variable Income Sources

- IRA/Rollover IRA, 401(k), 403(b), 457(b), TSP
- Taxable Investment Accounts - Equity & Fixed Income (stocks and bonds)
- Investment Real Estate
- Charitable Giving (e.g. Charitable Remainder UniTrust)

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12



## Income Sources

### Variable options - IRA, 401(k) & 403(b)

- Most common sources of retirement income
- Many people consolidate all these investment accounts into a Rollover IRA at retirement, but is not required

## Income Sources

### IRA Income Strategy – Hypothetical Example

- IRA Allocation set at 60% Equity and 40% Fixed Income (this allocation will vary with individual risk tolerance)
- If we assume this allocation could provide a 7% average annualized return over the next five to ten years, we then set a 4% annualized distribution rate for monthly income payments. This may possibly allow the income payments to increase over time due to net growth in the IRA value (offset future inflation).

*Investing involves risk including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss. Past performance is no guarantee of future results. Please note individual situations can vary. Therefore, the information presented here should only be relied upon when coordinated with individual professional advice.*

## Income Sources

### IRA Income Strategy

How can we extract an income stream?

- Set the fixed income options to pay out their monthly income
- Set up monthly planned liquidations from equity options to meet 4% goal. Hopefully stocks/mutual funds/ETFs have ability to grow over time net of distributions

*Investing involves risk including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss. Past performance is no guarantee of future results. Please note individual situations can vary. Therefore, the information presented here should only be relied upon when coordinated with individual professional advice.*

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15

## RMDs

### Understanding Required Minimum Distributions (RMDs)

- IRS requires taking annual distribution from IRA, 401(k), 403(b) and 457(b) starting in year you turn age 72
- Must take IRS required amount before end of calendar year
- IRS penalty for not taking correct RMD amount is 50% of amount below the RMD minimum
- Can take more than minimum if desired

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16



## RMDs (cont'd)

### Understanding RMDs (cont'd)

- **SECURE Act** signed into law December 20, 2019
- Changed RMD start date from year turn 70½ to age 72
- New RMD rules apply to anyone who turns age 72 after 12/31/2019
- Anyone who turned age 70½ prior to January 1, 2020 required to follow old RMD rules (begin RMDs in year turn age 70½)

SECURE = Setting Every Community Up for Retirement Enhancement Act of 2019

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17

## Calculating Your RMD

- Obtain your prior year-end account balance
- Look up your *life expectancy factor* on appropriate IRS life expectancy table
- Life expectancy tables located in appendix IRS Publication 590-B: <https://www.irs.gov/pub/irs-pdf/p590b.pdf>

Source: IRS Publication 590-B dated March 25, 2021

### Uniform Life Expectancy Factors Ages 70 – 79

Age of IRA owner or plan participant	Life expectancy in years
70	27.4
71	26.5
72	25.6
73	24.7
74	23.8
75	22.9
76	22.0
77	21.2
78	20.3
79	19.5

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18

## RMDs as Percentage of Account Balance

Age of IRA Owner or Plan Participant	RMD as a Percentage*
70	3.65%
71	3.78%
72	3.91%
73	4.05%
74	4.21%
75	4.37%
76	4.55%
77	4.72%
78	4.93%
79	5.13%
80	5.35%
81	5.59%
82	5.85%
83	6.14%
84	6.46%
85	6.76%
86	7.10%
87	7.47%
88	7.88%
89	8.34%

Source: IRS Publication 590-B dated March 25, 2021

\*Note: All percentages are rounded up to nearest hundredth

19

## RMDs

### Sample 2021 IRA RMD calculation

**Age 72 reached in 2021**

IRA #1 12/31/2020 value = \$100,000

IRA #2 12/31/2020 value = \$100,000

**Consolidated IRA Value as of 12/31/2020 = \$200,000**

**Uniform Life Expectancy Factor for age 72 = 25.6**

**Divide \$200,000 by 25.6 = \$7,812.50 (your 2021 RMD)**

This first RMD can be delayed until April 1 of year following the year in which you turn age 72. However, you will then be required to take two distributions in the year 2022. Making the decision to delay the first RMD will require tax planning with your CPA and other advisors.

20

## Roth IRA Conversion

**You can convert your Traditional IRA to Roth IRA and pay income taxes at your current marginal tax rate. In return you can receive tax-free withdrawals during retirement and no RMDs.**

- Convert Traditional IRA funded with tax-deductible contributions, pay taxes on contributions and earnings in current tax year
- If 72 or older, you must first take RMD if you plan to immediately convert all IRAs to Roth IRAs
- Consider converting Traditional IRA over multiple years - may pay less total tax than if you convert during a single year
- Issue for those approaching retirement is the 5-year rule

*Note: Please consult your professional advisors such as CPA, attorney and/or financial advisor for guidance pertaining to your specific situation.*

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21

## IRA Planning

### Qualified Charitable Distributions (QCD)

- In December 2015, Congress passed legislation allowing IRA owner to give up to \$100,000 to charity directly from IRA without counting distribution as taxable income
- Must be over age of 70½
- Counts toward annual RMD
- Charity must be IRS Qualified Charity
- Distribution must transfer directly from IRA custodian to charity
- Discuss with your professional advisors

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22

# IRA Planning

## Qualified Longevity Annuity Contract (QLAC)

- Consider using QLAC to reduce taxable income after RMD begin date with portion of your IRA
- Up to 25% or \$135,000 of your retirement account balance (2021)
- Allows deferral of income up to age 85
- Must annuitize by age 85
- Irrevocable once purchased

*Note: Please consult your professional advisors such as CPA, attorney and/or financial advisor for guidance pertaining to your specific situation.*

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23

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## Generating Income in Retirement

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24

## Charitable Gift Annuity

Illustrations (based on **one** life with donation made in May 2021)

Amount	\$20,000	\$20,000	\$20,000
Age at donation	75	78	80
Annuity Rate	<b>5.4%</b>	<b>6.0%</b>	<b>6.5%</b>
Potential Charitable Deduction	\$9,017	\$9,524	\$9,809
Annual Income Payment	\$1,080	\$1,200	\$1,300
Tax-free portion*	\$886 (12 yrs)	\$997 (10.5 yrs)	\$1,084 (9 yrs)

At maturity, remainder distributed to Torrance Memorial

\*Tax-free portion projected for years based on standard life expectancy tables

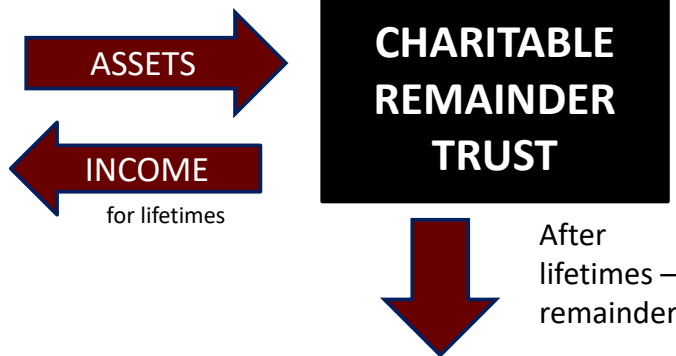
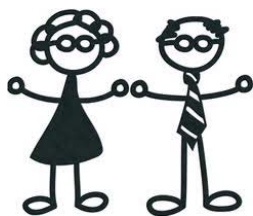
**Sample Bank CD rate \$10,000 1.25%**

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25

## Charitable Remainder Trust (CRT)



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26

## Charitable Remainder Trust Considerations

Three principal situations where a Charitable Remainder Trust (CRT) may be appropriate

1. You own an asset where a transaction will generate a significant tax liability
2. You need income now or in the future
3. You have charitable goals and interests

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27

## #1 CRT Contribution

- \$1,000,000 of stock
- No capital gains tax to pay
- Additional tax write-off \$600,000
- Ability to sell another \$1,000,000 of stock
- Receiving \$70,000/year income

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28



## #2 CRT

	<u>Cost Basis</u>	<u>Value</u>	<u>Tax-Deduction</u>
December 1992 - ROK Stock	\$178,000	\$290,000	\$148,000

- Donor 74 years old when CRT established
- Married her handyman
- Avoid paying income tax on \$112,000 capital gains
- Additional write-off \$148,000
- 8% unitrust for income

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29

## #2 CRT (cont'd)

	<u>Cost Basis</u>	<u>Value</u>	<u>Tax-Deduction</u>
December 1992- ROK Stock	\$178,000	\$290,000	\$148,000

- Was receiving \$8000-\$9000 per year in dividends
  - ✓ Income 1<sup>st</sup> year was \$23,000
  - ✓ Lowest in 1995 was \$21,214
  - ✓ Highest in 2007 was \$31,974
- Total income until April 2009 was \$387,725
- Proceeds to charity was \$270,000

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30

## #3 CRT

- Two brothers bought property in 1974 for \$75,000
- Established a Charitable Remainder Trust
- Sold property in the CRT for \$2,500,000 (\$1,250,000 each)
- No capital gains tax
- Additional tax write-off of \$800,000
- From 2008-2021 received over \$1,000,000 of income
- Remainder of \$1,100,000 projected to charities
- Younger brother (age 99) still receiving income

## Primary Risks

Primary risks for Income Planning in Retirement

1. Market risk
2. Inflation
3. Living too long

## Generating Income in Retirement

**Karen Pryor**

*Reverse Mortgage Broker*

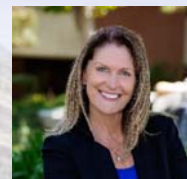
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33

## Reverse Mortgage Basics

- **FHA HECM**
  - ✓ Home Equity Conversion Mortgage (HECM) was established by HUD in 1987 under the *Housing and Community Development Act*, signed into law in 1988
- **WHAT IS IT**
  - ✓ A loan designed for seniors
  - ✓ Allows access to a portion of their home's value using the home as collateral
- **AGE REQUIREMENTS**
  - ✓ At least one borrower must be 62+ / any other borrower must be over 18
- **COUNSELING IS REQUIRED**
  - ✓ Prior to application (usually done by phone lasting approx. 1 hour)

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34

## Reverse Mortgage Basics (cont'd)

- **MUST CONTINUE TO PAY ALL PROPERTY CHARGES**
  - ✓ Property taxes, homeowner's insurance, HOA dues, etc.
- **PRIMARY RESIDENCE ONLY**
  - ✓ Must remain the principal residence of at least one of the borrowers
- **ALLOWABLE PROPERTY TYPES**
  - ✓ Single-family home, a HUD-approved condo, a manufactured home or 2-4 units
- **FIRST LIEN ONLY**
  - ✓ Any balance on existing mortgage must be paid off at closing
  - ✓ No secondary financing is allowed

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35

## Reverse Mortgage Basics (cont'd)

### HOW MUCH CAN YOU BORROW?

Amount borrower is eligible for based on three factors:

- ✓ Age of youngest borrower (or non-borrowing spouse)
- ✓ Value of property, capped at maximum \$822,375 for FHA loans
- ✓ Interest rate associated with selected program

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36

## The Reverse Mortgage Has Matured!

Financial assessment rules implemented 2017 to strengthen & protect viability of FHA HECM program. Goal to ensure RMs used responsibly as part of ongoing retirement income plan vs. one-time “Hail Mary” raid on cash.

### KEY CHANGES

- **SAFER, STRONGER & LESS RISKY**
  - ✓ Can only tap into 60% of lending limit in first year
- **FINANCIAL ASSESSMENT REQUIREMENTS**
  - ✓ Sufficient income to cover property charges, consumer debt and residual income requirements
- **SPOUSAL PROTECTION**
  - ✓ For younger spouse if older spouse predeceases him/her

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37

## No Longer A “Tool of Last Resort”

- **FINRA (Financial Industry Regulatory Authority)**
  - ✓ Changed stance in 2014 due to research from well-respected financial scholars
- **DON'T WAIT**
  - ✓ Many seniors apply toward end of retirement after investment funds exhausted
  - ✓ Studies show this generally does not create successful outcomes
- **POWERFUL TOOL**
  - ✓ When used as intended, it can be a powerful planning tool
  - ✓ The *American College of Financial Services* has done studies that show a RM can potentially increase retirement spending *and* provide a larger legacy

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38

## Using The Right Tool



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39

## Using The Right Financial Tool

### Is a Reverse Mortgage the right tool for you?

- ✓ A reverse mortgage is a financial tool – it's neither good nor bad
- ✓ Know your retirement goals
- ✓ Understand how a reverse mortgage would work for YOUR situation
- ✓ Discuss with an experienced reverse mortgage professional AND your financial advisor

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## Generating Income\* & Providing Security

### Financial planning strategies utilizing home equity:

- ✓ Replace conventional mortgage to manage cash flow more effectively
- ✓ Management of investment performance risk
- ✓ Preservation of low cost-basis assets
- ✓ Establishing an emergency fund (Line of Credit feature has growth factor = same as interest rate on loan!)
- ✓ Convert proceeds to monthly payment for life (“tenure payment”)\*\*

*\*Proceeds from a reverse are NOT considered income \*\*As long as you live in the property and keep all charges current.*

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41

## Generating Income\* & Providing Security (cont'd)

### Financial planning strategies utilizing home equity (cont'd):

- ✓ Fund long term care insurance
- ✓ Pay for ROTH IRA conversions
- ✓ Delay taking Social Security until Full Retirement Age
- ✓ Funding charitable contributions
- ✓ Funding education expenses

*\*Proceeds from a reverse are NOT considered income*

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42

## Case Study: Elvis

### Receiving Monthly Income

**CONCERN:** Elvis, age 70, has planned & saved for retirement. His home is worth \$825,000 with no mortgage. He lives alone and longevity runs in his family. He is concerned about being able to stay in his home as long as possible and would like to have money set aside that he can tap into to pay for in-home assistance, should he need it later on.

**SOLUTION:** Obtain a reverse mortgage, leave all proceeds on the line of credit feature, convert to a tenure payment down the line! In this example, he converts it to a monthly payment for life in year 13!

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43

## Case Study: Elvis (cont'd)

### Receiving Monthly Income\*

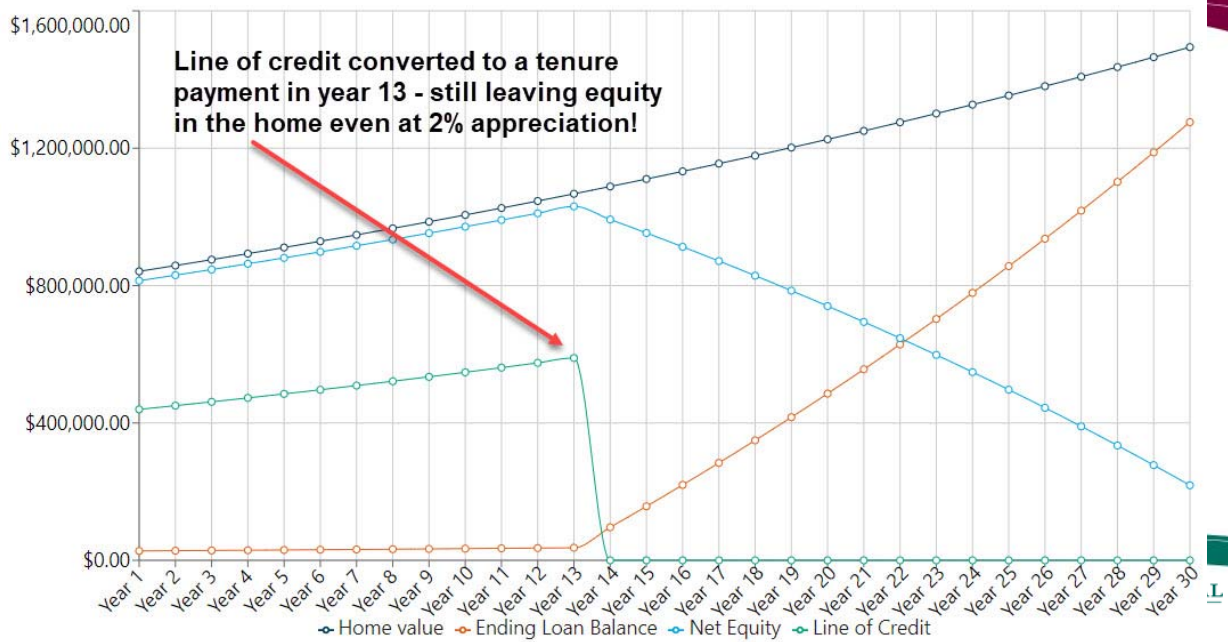
- ✓ **Qualify for approximately \$455,000**
- ✓ **Starts receiving monthly payments of \$4,830 in year 13 for as long as he lives in the house and fulfills his borrower obligations (\*loan proceeds are NOT considered taxable income!)**
- ✓ **Home appreciation rate 2%...estimated equity in 25 years, almost \$500k!**
- ✓ **Line of credit grows over \$150,000 from the time he takes out the reverse**

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44

## Case Study: Elvis - Graph



45

## Case Study: Lucy & Ricky

### Can You Get a Reverse Mortgage and Still Have Equity Left For Your Heirs?

**CONCERN:** Lucy and Ricky, both 80, want to do some upgrades to their home of 40 years. They still owe \$85,000 on their current mortgage, paying \$1000/month. Being on modest pensions, they would not qualify for the additional \$200k they would really need to do all their projects.

**PLOT TWIST!** One of their children would like to eventually live in the home and isn't sure they would qualify for a mortgage to refinance an increasing balance.

46

## Case Study: Lucy & Ricky (cont'd)

**SOLUTION:** By obtaining a reverse mortgage AND continuing to make their \$1000/mo payments for 10 years, they are able to keep the loan balance at a level that would be reasonable for the heir to refinance the loan. They also qualify easily on their pension income.

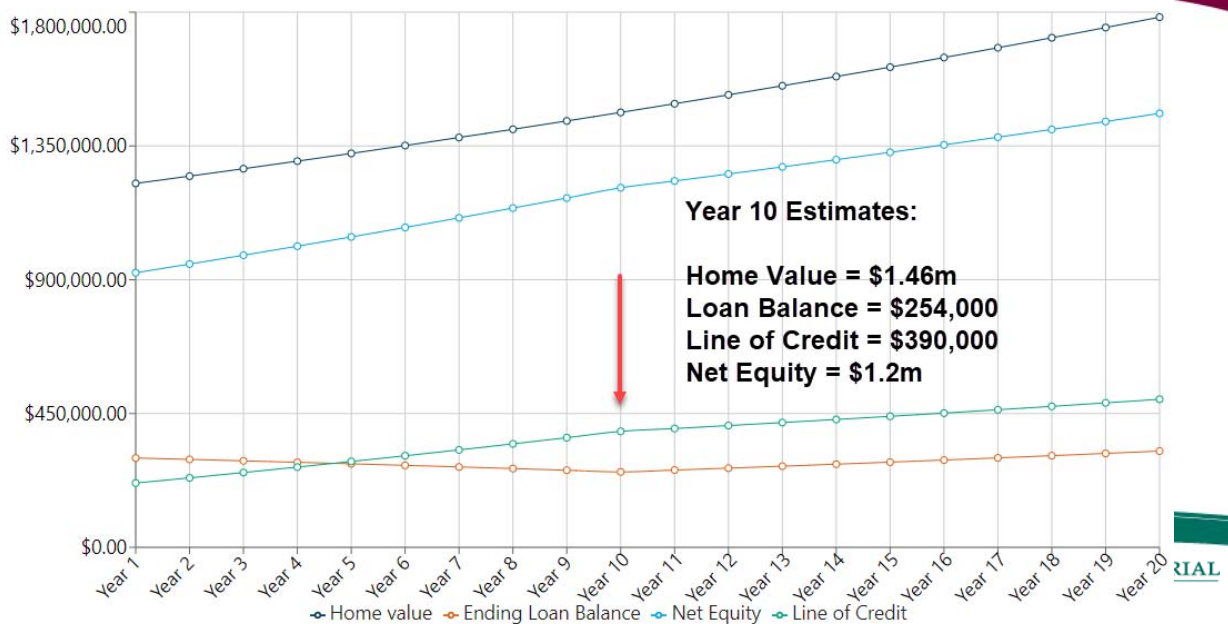
- ✓ **Qualify for approximately \$504,000**
- ✓ **Property appreciation rate of 2%**
- ✓ **Borrowers make \$1000/month payments**
- ✓ **Line of credit balance increases with payments**

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47

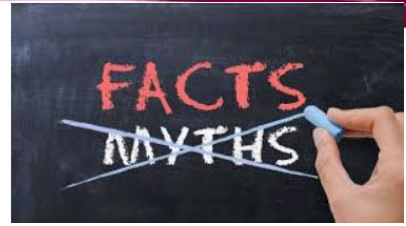
## Case Study: Lucy & Ricky - Graph



48

## Bottom Line

### GET THE FACTS.



- ✓ A reverse mortgage is not a scam.
- ✓ Knowledge is key in determining whether a reverse mortgage is right for you.
- ✓ Don't make decisions based on fear or hearsay.

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49

## Thank you!

# Questions?

### Disclosure

*This material is for general information only and is not intended to provide specific advice or recommendations for any individual. To determine what is appropriate for you, please consult a qualified professional.*

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50

## Follow-up questions

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[www.torrancememorialfoundation.org/news](http://www.torrancememorialfoundation.org/news)

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