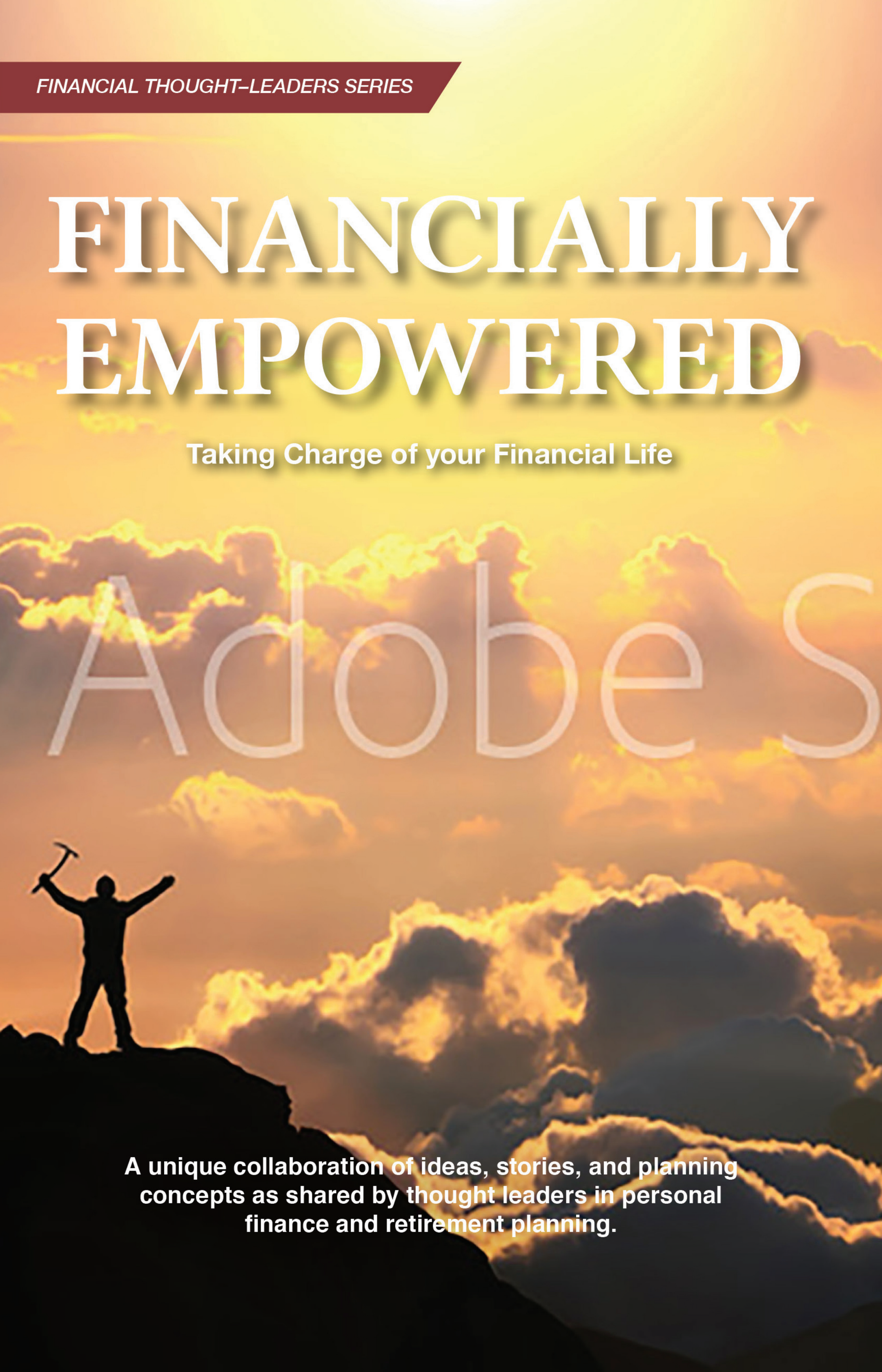

FINANCIAL THOUGHT–LEADERS SERIES

FINANCIALLY EMPOWERED

Taking Charge of your Financial Life

A unique collaboration of ideas, stories, and planning concepts as shared by thought leaders in personal finance and retirement planning.

FINANCIALLY EMPOWERED

Taking Charge of your Financial Life

Financial Thought-Leaders Series

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FOREWORD

As the second book published in the Financial Thought-Leaders Series, *Financially Empowered* applies to a much broader audience. *Financially Empowered* has the perfect balance of big-picture thinking, along with specific introductions to some of the most common tools used in the financial planning industry today.

The contributing authors of this book are actively practicing financial professionals, with decades of combined experience. Their experiences aren't just theoretical, textbook examples. Their stories and guidance come from working every day with individuals just like you.

Whether you are 20 years away from retirement, 20 years into retirement, or anywhere in between, this book shares unique insights that may enrich your financial life. I'm honored to have been a very small part of this book, which seeks to accomplish a much bigger goal – helping you to become Financially Empowered.

All the best,
Mark R. Mersman
Co-host of the nationally syndicated USA Financial Radio Show
Co-contributor of the audiobook, *The Retiree's Guide to Retirement Income Planning*
Grand Rapids, Michigan

Mark Mersman is an investment advisor representative of, and securities are offered through, USA Financial Securities, 6020 E. Fulton St., Ada, MI 49301. Member FINRA/SIPC (finra.org) and a registered investment advisor.

INTRODUCTION

Mutual funds. Stocks. Bonds. Annuities. Insurance. How will you know which financial planning tools are the right ones to use for your situation? Finding the right professional to help you navigate through the sea of choices is important. You have a unique set of circumstances, and you owe it to yourself to find someone who will listen to your goals and help you chart a course to accomplish them.

It's been said that knowledge is power. One could argue that such a statement may be missing a word – **applied** knowledge is power. The information shared with you in this book is designed to provide you with baseline knowledge. While it will certainly answer some questions you may have, that is only the first of three primary goals of the book.

Goal # 1 – Educate. There will be new items and concepts shared in this book. Frankly, the financial industry finds new ways to confuse people every day. This book seeks to boil down much of the complexity into simple-to-understand terms.

Goal # 2 – Invoke questions. There's a quote attributed to Ralph W. Sockman that states "The larger the island of knowledge, the longer the shoreline of wonder."

To translate simply, it suggests that the more you know about a subject, the more you realize there is a lot left to learn. This holds true in the world of personal finance. The more knowledge you obtain, the more questions that will come to mind. That is to be expected. This is what will lead you on the journey to accomplishing the third goal.

Goal # 3: Empowerment.

Empowerment is defined two ways:

- Authority or power given to someone to do something.

or

- The process of becoming stronger and more confident, especially in controlling one's life and claiming one's rights.

For starters, many people feel powerless when it comes to their personal finances. Obtaining this book (or any other financial education book) is a step in the right direction when it comes to taking authority over your financial situation. When you break down the second definition, it suggests that the feeling of empowerment is an ongoing process. This is especially true with your personal finances.

This is where you'll need to decide whether you are up for this challenge alone, or you want to enlist the assistance of professionals.

Financial planning isn't all about investments or insurance. It's about goals, dreams, desires, action steps, and relationships. It isn't a one-time event, or even a series of a few events. It is an experience. With the volume of information and choice at your disposal, it's very clear that it is an important experience to get right. That starts by determining who you want to be your experience guide.

As you'll notice in this book, there is very little emphasis about portfolio return. While determining what investments to own is certainly a part of the financial advisor job description, it could be argued that the largest benefit a professional advisor can bring to the client relationship is behavioral coaching. In short, perhaps the most important item an advisor can bring to the table is to provide guidance to help their client develop AND adhere to a financial plan (especially during times of increased market volatility).

Stocks, bonds, ETFs, mutual funds, and "the market" get all of the attention from the media. In the end, having a plan that you establish, review, adjust, and stick to is what will lead to real financial empowerment. Find the right guide, ask questions, trust your gut, and take charge of your financial life.

Chapter 1

Your Future Is in Your Hands

By Clayton Shum

I've been talking about retiring for years. It's my standard answer to the question, 'What are your future plans?' The truth is, I'll always want to do things that are worthwhile or fun. — Dick Van Dyke

Chances are that your teenagers are not in their rooms planning for their retirement. For that matter, neither is the average 40-year-old. Remember when your parents gave you a piggy bank to teach you the virtue of saving? When you were finally able to break it open, you were thrilled at how much money you had to go shopping with or to buy treats.

There is almost always a mental disconnect when it comes to growing old and saving for the day you retire. Few of us want to admit that life will change when we retire, or we think that we will work until we die. Unfortunately, life itself does not work that way. What does work is that piggy bank.

Here are some facts that may or may not surprise you:

- 38% of the more than 5,800 respondents have either no intention to retire or plan to keep working for as long as possible.[1]
- 31% of non-retirees have no retirement savings or pension, including nearly a quarter of those older than 45.[2]
- 27% of those surveyed say saving for retirement is their greatest financial priority vs. "just getting by" (21%) and "paying off debt" (20%). The typical worker saves just 8% of salary, while most professionals recommend 15% or more.[3]

What this means when you apply these same statistics to the entire population is that millions of people have not made any financial plan for when they stop working or when they are required to retire at a certain age because of a company policy. Today's youth is being raised on text messaging, selfies and a life led by new technology. Few are able to pause this fast-paced, multitasking lifestyle to worry about the future. That may inevitably catch up with many of them.

Social Security Is Not Enough

It takes initiative, purpose, dedication and being able to resist temptation to pull off a solid retirement. You have to be the one who takes the initiative to start a retirement fund or go to a financial planner. Social Security is not the answer for so many reasons. First and foremost, it only provides enough income to keep you at or near the poverty level. The Social Security system itself is in trouble (details below). When the 32nd U.S. president Franklin D. Roosevelt signed the Social Security Act on August 14, 1935, it was to be used as supplemental retirement for citizens, surviving spouses or the disabled.

Time magazine reported: The government's official position is that there is enough money saved to pay benefits at the currently scheduled amounts until 2041. The Social Security Administration admits on its website that benefits will likely be reduced after that, barring changes that improve the financial strength of the system.[4]

The reality is, however, that if you're 55 or older now, you'll probably get the full benefit you're supposed to. Most of the recent discussions about reforming Social Security don't propose to change the benefits of current retirees or near-retirees. It's likely that political leaders will try to make changes in the system to improve its long-term financial health, but such changes are impossible to predict. So if you're under 55, rather than playing a guessing game, your best bet is to assume that financial stability in retirement is your own responsibility.[5]

It doesn't matter who you are or from what walk of life, you can easily find yourself at 65 or 70 with no job and little or no money to live on. Of course you know celebrities like Michael Jackson, Judy Garland and Sammy Davis Jr., but what you might not know is when they died they did not have a penny to their name and were deep in debt. Although they made millions, they did not plan for their future and would they have lived longer, they would no longer be able to live in the lifestyle they were accustomed to. While few of us are famous, the same principles of discipline and planning are necessary to retire.

The responsible thing to do is to look at the big picture and provide for yourself and your loved ones and resist the temptation to tap into your funds when unanticipated expenses occur. Before you plan to retire, it's all about the goals you set and the amount of time you have left.

There are websites and financial planners that have their own formulas, but it's not all that complicated. You can manage your own finances or use a financial planner. A financial professional often suggests other savings vehicles for you to move your money to rather than keep it in a savings account. They will work with you to figure out what's best for your current situation.

Planning

Plans are nothing; planning is everything.
— Dwight D. Eisenhower

As you approach retirement, there are many things to think about. Financial professionals advise that you will need about 80% of your pre-retirement income to continue your current quality of life.[6] The exact amount, of course, depends on your individual needs. Some important factors to consider include:

- At what age do you plan to retire?
- Can you participate in an employer's retirement savings plan, such as a 401(k) or a traditional pension?

- Will your spouse or partner retire when you do?
- Where do you plan to live when you retire? Will you downsize, rent, or own a home?
- Do you expect to work part-time?
- Will you have the same medical insurance you had while working?
- Will your coverage change?
- Do you want to travel or pursue a new hobby that might be costly?

When you look ahead to your retirement, and you are under age 40, you might think you can work until you are 70. That's a great goal, but it may not be a reasonable one. Some companies still like folks to retire at 65, plus you never know when your body will not allow you to continue working. It's best to plan for retirement at 62 or 65, so you can get Social Security to supplement your retirement income.

If your company has a retirement plan, don't be hesitant to participate in it. Contribute as much as you comfortably can, because it all adds up in the end.

If your spouse or partner is not going to retire when you do, it's important that you start your retirement income as planned so the bulk of your financial burden is not on your partner.

You must assess your living situation based on what your new income is going to be. Your mortgage or rent payment, utilities and upkeep should be equal to or less than half your income.

If you are going to work part-time, it could affect the amount of Social Security you receive until you reach the age when you are allowed unlimited earnings.

You also have to consider your health insurance and what Medicare will cost.

If you plan on traveling or have an expensive hobby, include the estimated costs in your initial retirement budget and see if you can still afford them. If you are over budget, you may have to change that part of your lifestyle.

Setting a Goal

Even if you are on the right track, you'll get run over if you just sit there.
— Will Rogers

The main thing you have to do is set a goal and stick with it. You may ask how to come up with that goal. The simplest way to start is determining how much it will cost to live comfortably each month after you retire. In addition to all of your monthly bills, you'll need to add in funds for travel, going out to dinner once a week and any additional optional expenses. Next, figure out the number of years you think you can live unassisted. Then multiply the dollar amount by the number of years and you will get your goal number. Divide your goal number by the number of years you have left until retirement.

Financial planners can help you figure out how much you need to contribute per year to reach your goal by helping you understand how to invest your money through many different investment options, including, but not limited to, the stock market, municipal bonds, mutual funds, other bond types and private investment funds.

If you are not a mechanic, you would likely not try to fix your car. Similarly, if you are not a financial planner, then seek help from a professional. There are retirement calculators available on various websites to help you determine how much money you'll need for retirement. Your findings should be discussed with a professional once you meet.

As mentioned at the beginning of the chapter, many people are not preparing for retirement.

Fewer Americans than ever before are adequately prepared financially to retire. (*emphasis mine*) In a survey … 28 percent said they have less than $1,000 in savings and investments poised for retirement. A 2014 Federal Reserve survey paints a more discouraging picture: 31 percent of non-retired respondents have zero retirement savings — 19 percent of them ages 55 to 64.[7]

The "Right" Start

A bank is a place that will lend you money if you can prove that you don't need it.
— Bob Hope

All this gloom and doom about our financial future is necessary to make our point, because it's important that you don't stray from your financial path. You'll be better prepared for retirement if you plan ahead. The key is to not wait until you are 55 to start saving. Start as early as you can.

So, how do you get your kids to start working toward retirement before they even get their first real job? One way to jump-start your child's retirement is to sign them up for a Roth IRA specifically designed for kids. More and more fund companies are now offering this option.

The Roth IRA for kids works much like a regular Roth IRA—it's funded by after-tax savings, and the account grows tax-free. One exception though is the kiddie Roth that's a custodial account for children under the age of 18, and it's funded and controlled by an adult, typically a parent or grandparent. Control is transferred to the child when they become an adult.[8]

Your kids need to understand that by giving them a head-start, they MUST follow through and once they are working, make regular deposits toward their future.

It is important for children to begin learning about how to plan for life in the real world as soon as you think they are able to understand it. Dave Ramsey, a financial entrepreneur and money-management professional, reminds parents to start with the basics in the following paragraphs from his blog[9]:

"Teach your kids early about the connection between work and money. Even kids as young as three can earn money—and lots of praise—by doing simple jobs like picking up toys.

Older kids are ready for regular chores. When they work, they get paid. It's as simple as that.

Help them learn to budget money with three simple categories: give, save and spend. With this foundation, they'll learn how rewarding it is to set a savings goal and regularly put aside money to reach it—the basis for successful retirement investing!

From an early age, your kids will pay much more attention to what you do rather than what you say—and that goes for money matters as well. They need to see how living on a budget, avoiding debt, and consistent investing helps you work toward your financial goals, so include them in that process.

Even when your kids come down with a case of the "gimmes" (give me this, give me that), use the opportunity to talk about the importance of saving for the future. Explain that when you're focused on reaching a goal like saving for retirement, you sometimes have to put off or even give up things (a new toy, video game or computer, for example).

If your kids can understand that "stuff" should never derail their commitment to a long-term goal, they'll be way ahead of most adults when it comes to retirement investing."

Over 50 – What Do I Do?

The trouble with retirement is that you never get a day off.
— *Abe Lemons*

Now let's look at the other end of the spectrum — planning for retirement after you are 50 years old. Emily Brandon is a writer for retirement at *U.S. News & World Report*. She is also the author of *Pensionless: The 10-Step Solution for a Stress-Free Retirement*. Here are her thoughts on planning after 50[10]:

Become a super saver. It's feasible to accumulate a large 401(k) balance within a decade if you do some serious saving.

Take advantage of tax incentives. Workers age 50 and older could contribute up to $22,000 to a 401(k) in 2010, $5,500 more than younger workers. In 2017, you can contribute up to $24,000.[11] Older workers within certain income limits can also contribute up to $6,000 to an IRA, Roth IRA, or a combination of the two. Traditional retirement accounts allow you to avoid taxes on contributions in the years you're saving, but you must pay tax on withdrawals in retirement. Roth accounts don't provide immediate tax benefits, but withdrawals are tax free in retirement from accounts at least five years old.

Consider delaying retirement. You can get by saving less each year if you're willing to delay retirement. Consider a couple, both age 50, earning $75,000 annually who estimate they will need $55,000 worth of income each year in retirement. They will receive $35,000 annually from Social Security but will need to come up with the other $20,000 annually on their own. To reach that retirement income goal, the couple will need to save 18 percent of their income

until age 70, or about $13,500 annually, according to calculations by Chris Long, a certified financial planner for Long & Associates in Chicago. However, if the couple is willing to delay retirement until age 75, they could achieve the same retirement income by saving 12 percent of their income annually, or about $9,000 each year. His calculations assume an 8 percent rate of return and 3 percent inflation. "The longer you wait to start saving, the amount you need to save to be able to retire at all increases tremendously," Long says. "You will need to save a lot more because you don't have as much time to compound the growth."

Maximize Social Security benefits. You don't need to save enough to finance retirement entirely on your own. Social Security benefits provide a base for your saving to build upon. Get an estimate of your future Social Security income at ssa.gov. Also, consider delaying the age you sign up for Social Security benefits. Social Security payouts increase for each year of delay between ages 62 and 70. A $750 monthly check at age 62 could be boosted to approximately $1,320 by waiting until age 70 to claim your due.

Downsize retirement expenses. Another way to make up for a lack of savings is to downsize your retirement expenses. Paying off a mortgage before retirement can significantly cut your housing costs. Some retirees also downsize into smaller homes or condos and pocket the extra cash, curb or sell one of their cars, or employ other frugal strategies to significantly decrease their cost of living in retirement. But watch out for new expenses in retirement including travel, leisure activities, and increasing health care costs as you age.

Final Thoughts

Being a second generation financial planner, taking over the family business, and helping people to enjoy their senior years without unnecessary financial stress is a fulfilling job. My father taught me at a very young age the value of securing my own future. Finding a financial planner in your area is as easy as doing a quick internet search or looking in the phone book. If you find one you are interested in, ask a lot of questions. Find a planner who you are comfortable with and not necessarily the first one you interview.

If you decide to do your own planning, then do a lot of research and make sure you understand what you are reading. There are rules and loopholes you may not learn about unless you go to a professional.

In this field, there is no "one size fits all" way of creating a financial future. A little common sense goes a very long way.

Chapter 2

What Sets the Wealthy Apart

By Yong Wang

"Do you want to be rich?" No matter who you ask, you would probably get the same answer nearly every time: "Of course I do!" But despite the answer, most people have no idea what wealthy people do to attain their status.

Over the years, research has been done on wealthy people and what they might do differently than less affluent people. Books have also been written that claim to reveal the mysterious secret ingredients to become wealthy. As a financial advisor, I've been fortunate enough to be able to spend the past 15+ years of my life as a retirement "life coach" for many of my clients, and I've gained a great deal of knowledge and insight into what sets the wealthy apart from the rest of the masses. Of course, I don't know everything, and I don't pretend to, but from my experiences over the years, I've noticed that the wealthy start planning their retirement earlier than most people; when they start, they set goals and focus on them, and they create financial plans and put them into action. So let's begin the same as they did — you'll write down your goals, and then we'll review how to create a financial plan to help you work toward meeting those goals.

Dreams and Setting Goals

The life of each and every person on this planet is defined by many factors, including the environment in which they live, the events they've experienced, their knowledge (or the lack thereof), and the results of their efforts. But of all the factors that affect people, nothing has more power to motivate them than their ability to dream. Dreams are a manifestation of the life that we want for ourselves — the life we don't have but wish we did. They can show how amazing life could be if we only worked hard and put in the effort. But dreams are just that — dreams. By themselves, dreams get us nowhere. Anyone can say, "I wish I had a multimillion-dollar beachfront house and a chauffeur to drive me around in one of the 10 Rolls-Royces I wish I had."

As stated earlier, nearly everyone dreams of being rich. But how many of them actually turn their dreams into reality? Not many. You might now be asking, "So does this mean there's no point in having dreams?" Absolutely not! The key is to turn your dreams into something else — goals — and always continue to focus on them.

Anyone who's ever traveled in life knows that having a destination in mind at the start of his or her journey is crucial. Without a destination, you would be undoubtedly cast into the pit of mindless wandering, doomed to meander aimlessly for all eternity. Can you imagine what that would be like? I'm sure that most of you would think it's a terrible way to spend your life. Yet, if you don't set goals for yourself, that is exactly what could happen.

People without goals are like cows grazing in a field. They stand there all day and seem completely content with whatever is going on at the moment. They don't really care too much about what the universe throws at them each day. They may dream, but their dreams are simply dreams and don't have the ability to take them anywhere. Mark Caine, a well-known writer, once said, "There are those who travel and those who are going somewhere. They are different, and yet they are the same. The success has this over his rivals: He knows where he is going." The wealthy understand that the single most important thing about any journey, as well as your life, is the destination — the ultimate goal.

Of all the things I've observed, goal setting has had the most profound effect on the lives of my clients. Everything changes for the

better once a person has a goal in mind, including what they accomplish, their happiness and lifestyle, if they donate and what amount, and even their personality! Why is that?

Once we have a well-defined dream, then it is very important to have a step-by-step blueprint of how to make that dream become a reality. This is where a well-defined goal comes into play. It works like a magnet. The better you define your goal, which includes how you describe your goal and the reasons you want to achieve your goal, the stronger the pull. The key here is that the goal has to be clear enough and the reasons strong enough. In other words, if you know exactly what you want and you want it badly enough, you will find a way to get it. You will also find the tools you need to take you to your goal post.

To understand how important goal setting is, first look at the vast majority of people who do not have any goals. While the wealthy are setting their goals, following through with them and creating their own lives and destinies, other people simply make a day-to-day living and accept whatever happens. They might face their future with angst or fight for their economic survival and constantly worry about what will happen the next day, week, month, year, etc. Why? Because they haven't spent time designing their future and don't have goals in mind. Or maybe they do have goals in mind but are too paralyzed to move forward with them. On the other hand, the wealthy know exactly what is in store for them. They've planned and can visualize a future that is worth getting excited about, which allows them to feel anticipation instead of trepidation.

Short-Term and Long-Term Goals

How does one set a goal? Goals generally fall into two categories: short term and long term. Short-term goals could take anywhere from a few weeks, a month or even a year. Long-term goals require planning and time and could take one year or more. Sometimes a short-term goal can help with a long-term goal such as taking a retirement planning class to help with your understanding of your own retirement. Short-term goals are often easy to set and are just as important as long-term goals. They could also serve as confidence builders and inspire you to continue working on your long-term goals.

To help you create your list of goals, separated by short term and long term, in a notebook or on a sheet of paper write the headline "Goals." Then create columns with subheads "Goal description," "How Long" and you could also include "Short Term" and "Long Term." Write down as many as you can think of. If you have trouble coming up with ideas, use the following to help you get started:

- What do I want to do in life?
- Where do I want to be in five years?
- Do I want to go to college?
- How much do I want to spend on a car?
- Is there a certification I'd like to obtain?
- Where do I want to travel?
- What projects need to be completed?

After you've completed your list, in the "How Long" column, write the number of years you believe it will take you to complete each one. For example, if you believe it will take you 1 year to achieve a goal, write the number 1. Do the same for those that you believe will take 3, 5 and 10 years. Mark an "X" in the column that describes it as short term or long term. A good list will be relatively well-balanced between 1, 3, 5 and 10 years, with a pretty even number of each. If you can use that as a guide and rate each goal in years, that will help with the next step.

Narrow down your goals and choose two to three from each of the four categories (1, 3, 5, 10) that you consider to be the most important. You should have 8–12 goals. Start a separate page for them and create columns for "Description" and "Reasons Why." Write a short description of what you want and the reasons why you want to achieve or acquire each goal on this list. You will find that what you want is a powerful motivator but only if there is a good reason behind it. You

may also find that some of the goals you initially considered important are no longer quite as significant. Carry the list with you and review the goals often to see if they are still important to you and whether you are taking active steps to achieve them. As author and motivational speaker T. Harv Eker said, "The number one reason most people don't get what they want is that they don't know what they want."

Creating a Financial Plan

You now have your goals written out and know how important they are to you, and you have very good reasons for wanting to achieve them. So what is next to help you work toward reaching your goals? Create a financial plan, either by yourself or consult an advisor to help you.

Most wealthy people have a financial plan and follow through with it. They know that a goal without a plan is like traveling to a new destination without a map or GPS to help them navigate from point A to point B. Planning ahead is smart and makes the best use of your time and resources. When you create a written financial plan, you'll be on a better path to reaching your retirement destination.

There are many types of plans including a business plan for a small business, a financial plan for an individual nearing retirement, etc. In general, there are six major areas a written financial plan should cover, and it's usually what I'll use with my clients:

1. Cash reserve and cash flow analysis
2. Insurance and risk management
3. Income tax planning
4. Investment planning
5. Retirement planning
6. Financial estate and legacy planning

Let's start with the first one, cash reserve and cash flow analysis. Document your monthly cash flow, including your income and expenses, making a list of all of your assets and liabilities. To better understand your expenses, gather at least three to six months of your bank and credit card statements. Once you have gone through those statements, don't forget to highlight those large, less-frequent expenses, for example, property taxes or those once- or twice-a-year vacations. After you have determined your monthly average spending amounts, compare with your monthly average available income amounts to see if you have a positive or a negative monthly cash flow.

If you have a positive cash flow, congratulations! You're well on your way to reaching your financial goals. If you have a negative cash flow, then you need to seriously consider if there are ways you can increase your available income, reduce your spending amount or a combination of both. A positive cash flow is an important first step toward any financial goal.

With your positive cash flow, you could set aside three to six months of it in a cash or cash equivalent account as a cash reserve. The reason for this cash reserve account is for ease of use in the event you need that money, so investment return is not the major concern. If you don't have enough saved to cover three to six months, this should be the first financial goal you work toward.

Now comes the hard part – putting those cash flow details together in the form of a written financial plan. In the cash flow section, determine how much to save to reach each of your goals. Some people say, "I'll save 10%–20% of my income." It's not that simple. First, you need to look at the goals on your list. If your goals include getting out of debt and saving for retirement, you'll need to determine how much each would cost. In terms of getting out of debt, use a financial calculator to figure out how much you need to put toward that debt each month in order to be debt free by a future date.

In terms of saving for retirement, figure out how much you will need and when you are planning to retire. Once you know, determine how much to save each month under different investment-return

circumstances to make it happen. You'll want to know what each goal would cost and how much to save each month.

In the insurance and risk management section, your financial plan should help you identify, analyze, and manage risks that are inherent in your family life. A prudent financial plan should include some form of life insurance or disability income insurance as an essential component of risk management. Most people can easily understand why they should buy car or homeowner's insurance. But people often avoid thinking about life or disability income insurance and how their lives could be affected in the event of the loss of a loved one or the loss of their ability to earn income because of illness or injury.

These types of risk may be more challenging to address because their analysis can be clouded by emotion. The result can also be disastrous if there is no loss prevention strategy in place.

A life insurance policy is a contract with an insurance company that provides protection against the loss of income that would arise from the insured person passing away. In exchange for premium payments from the insured, the insurance company will provide a lump-sum payment as a death benefit to the beneficiaries in the event of the insured's death.

There are two main types of life insurance policies, term life and permanent life. The easiest way to remember the difference between the two is to think of term life as temporary and permanent life as just that, permanent. The policy will remain in force until the day the insured dies, as long as the insured or the owner of the policy keeps that policy in force with the premiums paid. Your unique situation should be taken into consideration when determining which type of insurance makes more sense to you.

Disability income insurance is also a contract with an insurance company. It's a protection that provides periodic payments when the insured is unable to work due to some type of disability. The plan is usually designed to provide anywhere from one-third to two-thirds of the insured's gross income, on a tax-free basis, should illness or injury keep the insured from earning an income in his/her occupation. It is an essential tool for an individual to maintain his/her standard of living and continue paying regular household expenses.

In the income tax planning section, your objective should be to legally pay the least amount of tax possible. Most people think that when they go to their accountant every year before the income tax filing deadline to get their tax return prepared, they have taken care of their income tax planning. That is far from the truth.

Income tax planning is year-round. It is taking advantage of all the tax knowledge and tools available to you before the end of year in order to estimate your income taxes for the year, qualify for the right credits, deduct the most expenses, and ultimately to reduce your taxable income and pay less taxes. There is a difference between an accountant who prepares your tax return for the previous year and having a tax planning professional work with you to reduce your income tax liability for the current year and years ahead.

Following are some typical strategies that a tax planning professional may use when doing income tax planning. You should explore them to see if they make sense for you to also include in your plan:

- *Contribute to a retirement plan or IRA or defer compensation income*, which may reduce adjusted gross income and prevent you from reaching higher income thresholds that may result in a higher tax liability. Maximizing the use of tax deductions such as charitable contributions or mortgage interest, state, and local income tax deductions can offset your income as well. But be mindful of transactions, such as the sale of a highly appreciated asset, which may increase your overall income above the key thresholds for the surtax, the income phase out of itemized deductions, or the new higher marginal tax rates.

- *Consider Roth IRA/401(k) contributions or conversions.* A thoughtful strategy using Roth accounts can be an effective way to protect against a future tax rate increase. Although it is virtually impossible to predict the tax rates in the future or to have a good idea of what your personal tax circumstances will look like years from now, consider using Roth accounts to create a source of tax-free income in retirement. With a Roth account, you have already paid the taxes on the money when you contributed to the plan, and earnings grow but are then never taxed. Therefore, money taken out of the plan is income tax-free. In addition, like all income from retirement accounts, Roth income is not subject to a surtax. See the IRS website for more information.[1]
- *Invest in municipal bonds to generate tax-advantaged income.* Municipal bonds become more attractive on a relative tax basis if you find yourself subject to the income tax surtax and you may also be subject to the highest marginal income tax rate. And some say that bonds still have an important place in the portfolios of certain investors.[2]
- Allocate investment assets by tax status. In general, it is more advantageous from an income tax planning point of view to place a large percentage of your stock holdings outside of your retirement accounts and place a large percentage of your fixed-income holdings inside your retirement accounts. With respect to stock investments, allocating a greater proportion of your buy-and-hold or dividend-paying investments to non-retirement accounts may increase your ability to benefit from a lower tax rate on qualified dividends and long-term capital gains.

In the investment planning section, your plan should address the following: your investment policy, your investment time frame, your risk profile, and your asset allocations.

Before you begin investing, it is important to have an investment policy statement (IPS), which helps you define your general investment goals and objectives. An IPS outlines the strategies to be used to meet these objectives and will include detailed information on subjects such as asset allocation, risk tolerance, and liquidity requirements. In other words, your investments should be chosen with a main goal in mind, whether that is safety, income or growth. The most important question you need to answer before you invest your money is which of the aforementioned characteristics is most important to you. Do you currently need income? Is growth most important to you so the investments can provide income later? Or, is safety your top priority?

Your investment time frame is also very important. When will you need to use the money you are investing? Establishing a time frame you can stick with is of the utmost importance in your investment plan. For example, if you need money to buy a car in a year or two, you should create a different investment plan than if you are putting money into a retirement plan or IRA on a monthly basis and you won't need to use the funds for 10+ years or so. In the first case, your primary concern is what the account will be worth in a year, so safety is a top concern. In the second case, it is irrelevant what the account is worth in a year, so positioning the account for growth in 10+ years down the road is of greater importance.

Do you understand investment risk? How comfortable are you with the level of volatility you might experience in your investments? An investment plan needs to account for that. Although risk and reward are part of investing, and you've heard of "no pain, no gain," you must weigh the potential reward against the risk of an investment to decide if the pain is worth the potential gain. Understanding the relationship between risk and reward is a key piece in building your investment plan.

Once you have set your investment policy, know your investment time frame and determine your proper investment risk level. It's time to design an asset allocation model in your investment plan. Asset allocation is an investment strategy that tries to balance risk and reward by adjusting the percentage of each asset class in an investment portfolio according to an individual's goals, investment time frame and risk tolerance.

Simply stated, asset allocation is investing your money in different categories of assets, e.g., stocks, bonds, real estate investment trusts, commodities, etc., so your investments are well-diversified. The objective of an asset allocation plan is to develop an investment portfolio that will help you reach your financial goals with the degree of risk that you are comfortable with. A well-diversified investment plan will not outperform the top asset class in any given year, but over time it may be one of the most effective ways to realize your long-term goals.

A good asset allocation plan can help you reduce risk because portfolio diversification can reduce the amount of volatility you experience by spreading market risk across many different asset classes. It can improve your opportunity to earn more consistent returns over time. It will also help you to stay focused on your goals instead of short-term market ups and downs. A well-balanced portfolio alleviates the need to constantly adjust investment positions to chase market trends, and can help reduce the urge to buy or sell based on emotions. Usually emotions are your worst enemy when working toward your financial future.

In the retirement planning section, address these important questions: What are the sources of your retirement income? How much income will you need during your retirement? What is the most efficient way to receive your retirement income once you've retired? How do you protect your retirement lifestyle?

Most people expect to have several sources of income when they retire such as Social Security, pension, and savings from different accounts. Retirement sources of income have often been compared to a three-legged stool. The first leg of the stool is Social Security. The second leg is the pension or retirement plan from your job. And the third leg is your personal savings. Having multiple sources of income is essential for your retirement life. If you have different types of retirement savings accounts, you may be able to make your money last longer by withdrawing it in the most tax-efficient order: first, spend from your taxable accounts before taking withdrawals from tax-deferred or tax-free accounts; next, withdraw money from tax-deferred accounts, such as your retirement plan or a traditional IRA; and finally, withdraw money from tax-free accounts, such as qualifying Roth contributions made to a Roth IRA or a Roth 401(k) plan.[3]

The vast majority of people don't know how much income they need to maintain their current lifestyle in retirement. They usually make an inaccurate assumption. Sometimes if the assumption is too high, the goal of retirement may seem absolutely unattainable. It then discourages people to plan for their retirement. But if the assumption is too low, which is most often the case, people could run into a difficult financial situation later in life and have to make drastic lifestyle changes in their retirement. The general rule of thumb is to plan for approximately 75%–80% of your current income during your retirement.[4]

One of the most overlooked areas of retirement planning is estimating health care costs in retirement. The annual median cost of long-term care in the nation can range from $17,680 for adult day health care, $43,539 for an assisted living facility, $45,760 for home health care, and for nursing home care $82,125 (semi-private room) and $92,378 (private room).[5]

By overlooking this, retirees could feel strapped for cash in their most vulnerable years. Most people assume only Medicare will cover these expenses, but this simply is not true. Anyone who has cared for an aging parent knows first-hand the toll it can take on their loved ones and their savings. Both the time and money needed to provide quality care can be staggering. Therefore, it's important to know your long-term care options and how you plan to pay for them if you need to.

To help cover expenses, consider purchasing a long-term care insurance policy. These policies offer many different coverage options. Depending on the policy you select, it could help you pay for care while you live at home, in an assisted living facility or a nursing home. These

factors also need to be considered when exploring your options: your age and health, the premiums, your income, savings and investments, and even your support system.

Regardless of your wealth, financial estate and legacy planning is extremely important to include in your overall financial plan. At a minimum, this type of planning should address what will happen to your assets and who should receive the assets upon your death. A legacy plan can be as simple as having a will and naming beneficiaries for your retirement accounts and insurance contracts, or in addition to your will, can be more complicated by having several different types of trusts for different purposes.

Although an estate planning process can be emotional, it's also financially complex. But if you make your plan as clear and thorough as possible, it can make a big difference in what your legacy leaves behind for your loved ones and the charities and organizations you care about.

It is important you work with an attorney and even a tax advisor. The attorney's role will include helping you understand some of your estate planning documents and guiding you through the completion of them. The tax advisor will help you with related tax issues. Following are some common strategies, and see the endnote.[6]

Review estate planning documents and strategies. The permanency of the historically high $5,000,000 exemption (indexed for inflation) amount may have some individuals and families with wealth under that threshold think that they do not have to plan for their estate. However, the taxes are just one facet of estate planning. It is still critical to plan for an orderly transfer of assets or for unforeseen circumstances such as incapacitation. Strategies to consider include proper beneficiary designations on retirement accounts and insurance contracts, a will, power of attorney, health care directives, and revocable trusts.[7] Again, these should all be discussed with a qualified estate-planning attorney.

Maximize what you leave behind. Most of the time, this will be a key theme throughout your estate planning efforts. You and your advisors need to think through how each asset will pass to your beneficiaries, as well as to your estate as a whole. The best options may vary by the asset type, asset size, your age, or many other factors. You'll also want to be thoroughly informed on what actions you can take or plan now to make sure as little as possible is lost to taxes, court fees, and other expenses.[8]

Plan for potential state estate taxes. Most individuals and families do not realize that many states have estate or inheritance taxes. They apply different tax rates or exemption amounts from the federal estate tax system. An individual or family may have net worth comfortably below the $5,000,000 exemption amount for federal estate taxes, but may well be above the exemption amount for his or her particular state. Therefore, it is important to consult with an attorney on specific state law and potential options to mitigate state estate or inheritance taxes.[9]

Transfer wealth during lifetime or death? Explore whether transferring wealth during your lifetime makes more sense than transferring at death, since the unified lifetime exemption amount for gifts and estates provides flexibility for you and your advisor to decide. Lifetime gifting shelters appreciation of assets post-gift from potential estate taxes, helps beneficiaries now, and uses certain valuation discounts available through strategies such as family limited partnerships. Transferring assets at death allows you to maintain full control of property while living and benefiting from a step-up in cost basis at death.[10]

Wealth transfer techniques. Individuals and families with significant wealth, especially with no-liquid assets such as real estate or a closely held business, may benefit from a range of more complicated strategies to efficiently transfer wealth. Consult an attorney or qualified financial and tax advisor to see if more complex wealth-transfer techniques are appropriate for you. Personal circumstances vary widely, so it is critical to work with a professional who has knowledge of your specific goals and situation.[11]

Implementing and Following Through

Now that you have a written financial plan that's specifically tailored to your individual goals, what's next? The wealthy know that any plan is only as good as one that is implemented, so it's essential to take action on your plan and monitor it on an ongoing basis. Here's where a good financial planner can help. He or she could act as your financial life coach, help you when your goals change, review your plan and see if it needs adjusting, and have monthly check-ins with you, if needed. He or she would also make sure you are on track toward your financial goals.

Below are three important traits the wealthy people display when they implement their financial plan:

They live below their means. The wealthy tend to pay themselves first. They follow their financial plan to set aside a certain percentage of their income toward their financial goals first, then, and only then, spend the remaining income on their necessary expenses. Here, there is a fundamental difference between the wealthy and the average people. While average people spend their income on their current living expenses first and then invest what's left over, if any, toward their future goals, the wealthy invest their income toward their financial goals first and then spend their remaining income on their current living expenses. There are many different ways the wealthy people manage their income, and the following is only one example of typical percentages they allocate their income:

- 10% to support charities
- 20% to long-term investment accounts
- 10% to short-term savings goal accounts
- 50% to current living expenses
- 10% to "play" accounts

They take calculated risks. The wealthy identify their specific financial goals through the goal-setting process, evaluate the risk level of each investment option available to their situations, know how much they can afford to lose and work within that limit. They also create a detailed plan of action. Therefore, they can follow through their financial plan on a step-by-step basis. If circumstances change, they review their financial plan with their financial professional and monitor it on an ongoing basis.

They avoid emotion and greed when they invest in the markets. There is an old saying that the financial market is driven by two emotions: fear and greed. However, the wealthy people understand that if they don't control their emotions when they invest in the stock market, it could be detrimental in reaching their financial goals. Because they know exactly what their goals are and they have a detailed financial plan, they can implement their plan on a non-emotional basis and not let the market affect them.

And on a final note, Forbes magazine shared findings from a research study that people with financial plans accumulated nearly 250% more retirement savings than those without a financial plan in place. Furthermore, nearly 44% of those who have a financial plan in place save more money each year for retirement.[12] This is validation of why setting goals, working toward them, having a financial plan in place and implementing it are all habits that we can take from the wealthy.

Chapter 3

It's Only Money, Honey: A Guide to Effective Communication with Your Spouse and Family About Money and Financial Planning

By Cheri Johnson

You can talk about dreams, memories, the kids and dinner, but when it comes to serious talks about your finances, many couples and families find this topic uncomfortable or overwhelming. So what happens? Some avoid the discussion altogether.

One of my friends, Bruce, jokes that "Men and women are so different when it comes to discussing money. Ask me how I feel about something and I'm stumped. Ask me what I think about something and I have an answer for you. My wife is the opposite – ask her what she feels and she quickly answers in detail. Ask her what she thinks and she'll ponder that before thoughtfully answering."

"Money is a subject that is so emotionally charged, we put off discussing it," says Robin, who's been married to Ben for 25 years. "My husband feels that I am somehow questioning his capabilities when I bring it up, even though I'm just trying to get up-to-speed about where we are. He gets so touchy that I end up making comments like, 'I don't worry about money; I know you have done an excellent job with it,' but really, I'm fearful because I don't know where we stand."

Another couple beginning to think about retirement in the next five years has very different ideas about investments and growing money. “Steven is very aggressive in his 401k portfolio,” says his wife Karla. “I’m worried that if the market makes a sudden downturn, we’ll lose our retirement nest egg. When I tell him I think we should be more conservative, he says I’m just being paranoid. The conversation ends before it even starts.”

In July 2016, TD Bank shared a survey focused on couples and money that revealed talking about money can have a big impact on the health of a couple’s relationship. Of those polled, 42% of both married and unmarried couples who discuss money once a week with their partner rated their relationship “extremely happy,” compared to 17% who discuss money issues once every few weeks. “We talk about money like we talk about this week’s activities,” says newly married Candace. “We have no secrets and we want to be on the same page about our financial planning. It isn’t like I can’t make my own decisions, but we’re a partnership, and we agreed early on that we would actively discuss all things financial.”

It isn’t always that easy. In the whirlwind of life, let’s face it, taking time to talk about money, investments and financial planning isn’t as compelling as a long walk on the beach. Yet, isn’t it important to know where you stand when it comes to important financial matters?

A 2015 Fidelity Investments Couples Retirement Study revealed that 43% of couples couldn’t say how much their partner earned, and 10% of those who answered were off in their guesses by $25,000 or more.[1]

Do you know your spouse’s earning record? In the event of interruption or loss of that income, how would you replace it? How would it impact your ability to pay bills, mortgage, buy groceries, save?

I Can Bring Home the Bacon, Fry it Up in a Pan

There might be some learned behaviors affecting a couple’s financial talks. For baby boomers, many were raised in a society where money was a taboo topic of conversation, even considered gauche or distasteful.

In the 70+ age group, social customs often put the responsibility of financial matters on men. As women advanced in the workforce and in roles as major contributors to family finances, it is understandable that with it came fierce independence and often a resolute stance that they were capable of making their own decisions about money and didn’t need a man’s opinion. It isn’t unusual for couples to manage finances separately, and even differently. But is this practical or even wise?

When a couple enters a marriage or partnership, best financial practices include extending that partnership to all levels of financial planning. If a shared life is a goal, isn’t it natural that shared financial goals should be a part of that equation?

Too often pride interferes with honest dialog about planning and money. One partner feels embarrassed that their lack of knowledge or control over money will make them look stupid. Another partner feels that they must appear to know everything about their finances so that they seem reliable and responsible. Yet in both cases they are completely missing the goal – to achieve a successful financial outcome. So how do you do that?

I met with a couple about their overall planning. Throughout the meeting, the wife looked to her husband, and he clearly was in charge of the money. They seem to have a great marriage, a good life, and they’ve done a terrific job of saving. When it came to investments, the husband was strongly confident about his investment allocations and repeatedly stated he had always done well in the market. I was surprised when he stopped in the next day and asked if I could chat for a few minutes. “My wife is a worrier,” he said “I don’t want her to worry about money, and I think I do a pretty good job of handling it. But the truth is, I’m really not sure if we have enough, if it’s invested right, and if I’m keeping up with all the changes.”

This same scenario has repeated itself a number of times over my years in practice as a financial planner. One person often feels pressure to handle the financial responsibilities – with the best of intentions – generally to protect their spouse from worry. That's a big burden. Certainly it's not fair to either person. There truly is a way to share this conversation so that both contribute, understand and generally agree.

Don't Skip Your Annual Checkup

Once a year isn't too overwhelming is it? An annual review of issues that will impact your finances is worthwhile and valuable. Make it an easy annual date to remember – the first Monday in January, Abraham Lincoln's birthday, the summer solstice – whatever marker will help remind you to keep this conversation current, and most of all, scheduled.

Start simply. Create a list of questions or conversations that you both agree on. Think of this as an agenda to keep your conversation moving and productive. Your first financial date should start to build a framework for areas that you identify as important in your lives. This discussion establishes values that are important to you individually and as a couple. Include some of the basics:

- What keeps you awake at night?
- If money was a concern, what would you like to do in the next 10 years and in retirement?
- Do you have any particular goals, dreams, hobbies or interests that you'd like to pursue?
- What are five items on your bucket list – things you'd like to do or places you'd like to visit?
- Are there any specific charities, churches or causes that you'd like to spend time or money on?
- How important is it to you to leave money to our kids, grandkids, charities?
- If I died tomorrow, what would life look life for you going forward?

- Do you want to stay in this house long term? If not, what do you envision?
- Is our home practical as we grow into older years? What needs to change?
- Who should we name as power of attorney in case we are mentally incapacitated?
- Do you think we have enough income?
- Do you have a good understanding of our financial picture?

Make this conversation count. Write down your answers. Start a file in a drawer or on your computer that summarizes your answers to these questions. Record answers in a bullet point format so you may easily review and update. Once a year, get out your notes and review your answers to see if they're still correct. Your ideas and responses may change as life changes, so be sure to update your thoughts on these questions.

It's a Date – Without Dinner

I recommend a regular date night to talk about money as a couple. Without distractions, this is a scheduled on-the-calendar time to check in, check up and adjust to keep up with financial health. Is it fun? Probably not? Worth it? Absolutely. It doesn't have to be all business – pour a glass of wine if you'd like, but stay focused and on topic. So what do you talk about and who goes first?

Who's on First?

Financial planners frequently serve as financial counselors, trying to help couples navigate through problems often caused through failure to communicate. The solution can be so easily found by regularly and steadfastly structuring time and attention for open communication about money. Set a date once a month and agree to stick to the schedule each and every month for the purpose of talking about money issues. Trust me, after you have done this for a time, you will begin to look forward to the conversation. There will be a sense of freedom about money because you will be in sync with your spouse, in control of your spending, and in charge of your future. It's a great feeling.

To stay on track, try to follow these steps:

Better together! Create goals.

What are the shared goals you've identified in your annual financial checkup? Talking about these goals reminds you why you are making financial decisions or using specific financial practices. You are working toward goals in unison.

It doesn't matter what the goal — maybe family vacations, a new car, retirement savings, aka "financial freedom." Keeping the clear goal in front of you will help guide day-to-day lifestyle decisions that will shape your success.

Respect that everyone has their own way of dealing with money.

Karen and her husband, Jeff, were constantly at odds over spending. Jeff was frustrated that Karen seemed to spend first, worry about it later. He worried about creating a financial foundation and just couldn't seem to get Karen on board with it.

"My parents always made me save 10% of everything I made when I was growing up," recalls Karen. "I had to put it in the bank before I spent any of my earnings. The missing link was not understanding why I was saving. Instead of recognizing the value of saving, I resented it. When I became an adult, I blew the savings on a trip, and started to spend every dime I made, almost with a sense of rebellion. It was several years into my marriage that I started to understand my reckless spending related directly back to an almost childish defiance that I wouldn't be forced to save."

Through candid conversations, we were able to uncover Karen's reasons for unbridled spending. We then focused on short-term benchmarks that we could measure against long-term goals. Jeff was very supportive of Karen and never berated her for how she felt, but

instead he worked with her to change her view going forward. Now Karen is an avid saver and approaches savings as an accomplishment.

Regardless of each partner's attitudes or behaviors regarding money, use these discussions as a way of understanding and valuing their perspective. Keep criticism out of the conversation as it will only serve to sidetrack your ultimate goal.

A tiskit a tasket, an organized basket

To show respect for the process and the time you've allocated for your monthly financial checkups, it's helpful to have important financial documents and accounts easily available for your discussions. Agree ahead of time who will get things ready. Fire up the computer or print statements, whatever your preference. Have information in place so you can efficiently make decisions about steps you'll take on a month-to-month basis.

No drifting

Stay on point. Don't let sidebar subjects sabotage your financial date. Celebrate afterward with news of the day or family updates. If you take this date seriously, it will be more productive for both of you.

Why don't you … be positive!

Avoid the common traps of playing the blame game: "You should change the way you …" or "We wouldn't be in this position if you hadn't …" Detour positive communication. Remember the theme – you're in this together! Keep the tone positive and constructive. No one wants to be called out for mistakes. Money talks can be fueled in resentment unless you both are willing to only approach topics from a blame-free perspective.

Your financial coach

Make sure to include your financial advisor in your discussions about financial goals. I consider myself a financial partner with my clients.

I can objectively offer suggestions and bring value to conversations about finances, retirement, major purchases. In addition, regularly scheduled reviews of investments with an engaged advisor will keep you on track and aware of where you are in relation to the goals you have identified.

This meeting is called to order

Create an agenda for your monthly dates. Some of the things you may want to include are:

- What does financial wellness mean to me, you, us?
- My current biggest financial concern is …
- What are our current spending habits?
- How much do we have in cash reserves? Is that the right amount?
- What major projects or expenses have come up? How do we cover that?
- What are our short-term and long-term goals? How are we preparing for this financially?
- Are our expenses in line with our budget?
- Do we need to increase income or decrease spending?
- What percentage of income did we save this month?
- Are we taking advantage of tax savings/credits?
- Charities – which ones are we supporting and at what level?
- Vacations – Have we budgeted and set aside for that?
- Gifts – birthdays, weddings, graduations – what's coming up?

Financial Infidelity. If You Cringe, You Might Be Guilty.

An estimated 12 million Americans confess that they have kept a source of money secret from their romantic partners, according to a telephone survey of 1,003 adults conducted January 19-22, 2017. Relationship experts warn that keeping a hidden bank account or credit card is a risky move with potentially explosive consequences.[3]

So what are these deep, dark financial secrets that earn the term financial infidelity? If a partnership or marriage is built on trust, isn't the keyword trust? In the same survey, 1 in 20 in a serious relationship admitted to covering up a purchase or hiding a bank account or the existence of a credit card. In a 2016 survey, the National Endowment for Financial Education reported that two in five Americans who have combined their finances in a current/past relationship admit to committing financial infidelity against their partner. And 42% admitted to financial infidelity compared to 33% in 2014. Additionally, 16% admitted to serious deceptions, like lying about the amount of debt they racked up, or being truthful about what they really earn.[4] In a relationship, your financial decisions and actions may make the difference between achieving goals or being woefully off track. It's important to spend a minute to be brutally honest about this topic. Do any of these financial infidelity behaviors appear in your marriage?

Problem spending

"Is that a new outfit?" he asks. "Oh this, no I've had it in the closet for a while. I just haven't worn it before," she replies. Not exactly a lie. It was in the closet for a few days since she bought it, so technically a while. The real issue, however, is that she knew he wouldn't be happy if she admitted she'd just dropped $300 on clothes, so she tweaked the truth to avoid possible confrontation. What happens when the credit card bill arrives? Sooner or later the truth will come out, and then the issue is made worse by the spending and the white lie. Trust is eroded when dishonesty is discovered.

OK, let's let this one go – once. But if it's a recurring theme, it's probably time for a dose of truth talk. Why did she feel she had to fib about the purchase? What's really going on? This is when a budget talk is needed. Did she feel she deserved the outfit? Was it a want, a need? What is the consequence of the spending? More importantly, how can she avoid deception in the future, because really, isn't that sort of childish?

In many cases, couples with children face this problem. One parent will help out a grown child without letting their spouse know. Maybe the other spouse doesn't agree with supporting grown children and believes they should stand on their own, etc. In my practice, this is one of the most common trouble zones for couples and one that creates hostility and frustration. The solution? Talk it out. This may be time for that old familiar friend – compromise. The conversation needs to focus on the financial impact to your personal plan, not who loves your children more. It may be that while you want to help your kids, your own personal finances suffer. It may be that enabling a grown child is preventing them from learning responsibility. Or you may both agree that special circumstances warrant help and financial support. The key is to be on the same page with your spouse and to be completely honest about where the money is going.

Secret stash of cash?

Maybe your spouse is socking away money for a surprise gift or trip, but secretly hiding cash in a drawer or even a bank account is one of the most common financial infidelities. A friend of mine managed to accumulate over $10,000 in a secret account in case his marriage ever crumbled. You can guess the result. His wife discovered the account when searching through some paperwork and finding this secret bank account. The devastation of trust was immediate: tears, arguments, accusations – shattering her faith in his honesty. The marriage continued for years but with a level of uncertainty and betrayal. Her trust in him never really was restored. Bad idea to hide money.

A solution? Work as a couple to find solutions to making you both feel comfortable about access to money. A joint bank account with complete transparency to both is one solution. If you like to maintain your own accounts, create a plan to cover ongoing expenses, savings and investments together, then maintain your own slush fund or savings account. Just be truthful about it.

Fifty shades of debt, credit and deceit

It happens innocently enough. You're at your favorite department store and they offer you triple points or big discounts on today's purchase if you open a charge account today. Why wouldn't you take that offer? Then the next sale comes, and you use the card again, and again. Without meaning to, you now have accumulated debt that is excessive and requires feeding through monthly payments. You don't mention it, because you know it won't be well-received by your partner.

So what now? Do you wait until it is time to finance a car, a house and then reveal the card? What if it shows up in a routine credit report that your spouse reviews? Gather your courage, tell your spouse you have a problem that needs to be addressed – together. Be prepared for a negative reaction. It's a betrayal of sorts, and can be upsetting. If the conversation becomes hostile, suggest postponing the discussion until calm heads can prevail. Then revisit the debt in a matter-of-fact way. Create a plan to pay it off and decide together if the line of credit should be left open, or paid off and closed.

Los Angeles–based psychologist Barbara Cadow suggests shifting the conversation to using "we" instead of "I" to tackle this problem, which can help create a team approach to solutions. If your partner is cooperating, she suggests couples counseling could be helpful. As a financial planner, I often see scenarios like the credit card example. As a neutral party, I can usually guide a conversation with couples to stay constructive and solution-oriented. But make no mistake, when it comes to financial honesty, I am unwavering in advising clients to halt deceitful practices and come together about all areas of financial behaviors and activities.

As an advisor, I can provide a safe, judgment-free zone to work on eliminating debt issues. The focus shifts from why the debt occurred to how we're going to repay it. Creating a plan that has couples working on it together can provide a "we did it!" outcome and turn a negative into a big victory.

PROOF ONLY

A raise on the down low

So, you get a raise but you really don't want it absorbed into the monthly bill payments, so you just enjoy the extra for a little while. Or your promotion means you are now making way more than your spouse, who hasn't had a raise in forever and you don't want to rub it in. Either way, according to Cadow, being dishonest about a raise may be used as justification to prevent jealousy in the marriage. Since most American families have two working spouses, it's easier for this dishonesty to occur.

You're heading toward a battle, because once again, betrayal creates distrust and distrust in a marriage is obviously not useful.

Shift your thinking to how the raise will benefit your overall goals as a family. Rather than protecting the new income by hiding it, have thoughtful discussions with your spouse about how the excess funds will be used, saved, or invested.

Bottom line: If financial infidelity has made an appearance in your relationship, turn the experience into one of growth for your relationship. Addressing this topic together may actually help you grow closer as a couple.

She Says Paris, He Says Idaho … The Retirement Revelation

In a meeting with a couple nearing retirement, I asked a simple question: "What does retirement look like for you?" The wife, Vicki, instantly brightened and said, "So many places I want to go – we've never really traveled to Asia and I want to do that. But mostly, I think we'll spend part of each year in Paris in one of those little apartments you can rent. And we'll speak French." She laughed because clearly neither one spoke French. Her husband Rob looked completely shocked.

Rob tried to laugh but didn't really convince me. He turned to his wife in amazement and said, "Paris, where did that come from? You've never talked about Paris!" He then said, "I plan to be fly-fishing in Idaho in retirement, not tromping all over the planet." Clearly, this

couple had never had a meaningful conversation about what life looked like in their golden years.

Another couple, Jennie and Eric, came in to review investments and Social Security maximization as they were six months from retirement. Again, I asked the question, "Now that retirement is around the corner, what are your plans for the next year or so?" Eric responded confidently, "We will be hitting the road in our RV. I don't want to mow yards, shovel snow, any of it. The housing market is getting better so we'll sell the place, be free as birds. We have grandkids in Arizona, so we'll be heading that direction for winter." A horrified Jennie chimed in, "What are you talking about – selling our home? We're not selling our home! The last thing I want to do is wander the highways with no place to call home! What's gotten into you, Eric? You're talking crazy talk!"

Again, this couple had planned for and dreamed of retirement without really identifying the lifestyle they envisioned. They made a common mistake – assuming you know what your partner wants. What should have been a joyful time, planning for the freedom and celebration of retirement, was now shadowed with very different views and ideas about what freedom in retirement meant to them individually.

Before everything completely fell apart, I took both couples through a series of questions to find common ground, as well as conflicts. In each case, compromises were necessary but I'm happy to report that Vicki and Rob enjoyed a month in Paris and Eric and Jennie went on a road trip in the RV but headed back to their home of 20 years.

The important lesson in all of this is to think about and communicate with each other about significant changes in lifestyle. Retirement is a game-changer. Make sure you have worked out the details of what your lives will generally be like in retirement. Additionally, working with a financial advisor/planner will provide you with clarity about finances and income in retirement.

Age Matters

The first years of retirement will probably look very different than the later years. Let's face it, many of us will retire at 65 and live another 30 years or more. The activities we are able to do at 65 are not as likely to be activities we do at 85. This creates a variety of challenges in the way we plan for and finance the various stages of retirement living. The time to consider the variables is before you retire. Sure, there will be unknowns, but better to raise the issues that could impact your lifestyle while you still are in a position to plan.

Some of the issues that couples face in retirement are daunting. Avoidance or breezing over these issues is common. Who, after working 40+ years wants to focus on a poorly funded future? "It will all work out. I'm going to win the lottery. My kids better remember all I did for them." Often we make light of our circumstance.

In reality, retirement years will be bleak for many Americans who have not adequately prepared. Wouldn't it be better to know with certainty if you have planned appropriately? And as difficult as the discussion might be, wouldn't it be better to address potential problems now rather than 15 years after you've retired?

And Then We Get Older

Talk to the kids. Really.

Meet Eileen, divorced at 60, never remarried, three grown children. Fortunately, Eileen's parents left her an inheritance of several hundred thousand dollars and a small income producing rental property. Eileen retired at 62 and has lived on her Social Security income. Her second floor condo is paid for and her only real ongoing expense is homeowner association fees. She lives a simple life and depends largely on her two grown sons to take care of home maintenance issues. She vacations with family members and is frequently a guest at family gatherings. She has always been

fairly active, walking several miles per day and keeping up with household maintenance and rental apartment management. She is somewhat of a loner, pleasant to neighbors but not prone to socializing outside the family.

As Eileen approaches 80, her children start to notice a change in her demeanor. She is becoming forgetful. She gets stressed easily. She creates stacks of paperwork and is always busy working on bookkeeping, but complains that she can't get it done. She makes comments about being nervous while driving. She no longer takes daily walks, and when she does walk, her steps are less certain. She is putting on weight and complains of a stiff neck, pain in her back, aching joints. Her family learns she has spent over a third of her inheritance, though no one knows how or on what. She is extremely secretive and private about finances. When her adult children try to talk to her about their concerns, she brushes them off with an, "Oh, I'm fine, just a little tired." When pressed, she gets defiant, even cranky, "If you think I'm losing it then just dump me in the river." When cautioned that her finances need to be there to last a lifetime, she states, "I'm going to spend it while I can. I'm not going into one of those homes. You'll just have to shoot me."

Sadly, this is an example of someone who could benefit from honest dialog with her family. While she insists she doesn't want to be a burden to her family, she is becoming just that. Her children are trying to respect her privacy, yet are uncomfortable with being nosey. So how can you avoid this situation as you age?

Whether you are married, single or widowed, there comes a time when you will benefit from having a loved one become involved in your financial affairs.

First of all, relax. Your kids generally have your best interests in mind. This is the time to loop them all in and start communication that will help your family take care of things that you may need assistance with in the future.

While you don't have to divulge financial information that you wish to keep private, this is the time to make sure you inventory every asset, account and item of value. Note any debts, ongoing bills such as your mortgage, insurance and credit cards. These should be recorded in a place that is easily found in the event of incapacity or extended illness. Make sure someone you trust knows where this information can be found.

Passwords – Make sure they are stored in a location that can be easily accessed by the person(s) you have identified to step in when you need help.

Finances – Invite your designated person(s) to meet with you and your financial advisor. Again, you don't have to disclose account balances, but it would be helpful for them to know your investment goals, your investment style and your thoughts about risk.

Personal wishes – This is the toughest conversation of all. You and your spouse may have an understanding of what happens if you become ill or die. It is important that your children know how you want to receive medical help, where, what kind, for how long. Make sure you have communicated your wishes in both a living will and verbally to your family. I provide a simple "fill in the blank" letter of instruction for my clients to complete. This letter is to clearly communicate wishes around sensitive topics like health and death.

Talk about your will – your exit plan

By including family members in your conversations about your health and end-of-life issues, you accomplish several things. Your affairs are handled the way you envision, the burden of difficult decisions is not thrust upon your family, and conflicts are avoided among surviving family members, because you have created instructions that will guide their actions.

This also helps in the inevitable time that one spouse pre-deceases another. A surviving spouse is often confused, terrified even, when their spouse becomes ill or dies. Having communicated clearly in advance of this creates a plan and action steps that the survivor may follow. It's one of the kindest things you can do for your spouse.

In addition to general issues, be straightforward and clear with your spouse and your family about any bequests or inheritance you wish to leave others. Before committing anything to paper, consult with your attorney and a financial advisor.

I once accepted a new client who wished to leave her taxable investment assets to her son. To keep it simple, she titled the accounts as *Transfer on Death* to her son. While her intentions were noble, if she had passed assets to her son in this way, she would have unknowingly deprived him of many of the tax benefits available through inheritance, including a step-up in cost basis.

When this discussion occurred, her husband was surprised and hurt. He assumed his wife would first leave assets for his use and that they would transfer to the son upon his death. She was confused also, as she assumed if she died first her husband would automatically receive the accounts and then transfer upon death to the son. Because she essentially transferred the accounts upon her death, she would have skipped over her husband thus depriving him of assets and income during his lifetime.

We were able to re-title the accounts, but this example illustrates the danger of assumption – getting feedback during conversations with her husband and a financial professional in the first place would have avoided this uncomfortable situation.

Along those same lines, today's families can be complicated. There are divorces, his, mine, theirs, ours. It is vitally important to thoughtfully discuss the plans for assets and gifting upon the death of one or both spouses. This can be a touchy discussion, especially if blended families and grown children with spouses are considered.

Be clear and honest about how you would like your estate to be divided. If your marital assets are combined during your marriage, it is important to incorporate the wishes of each spouse.

The discussion of how to gift your assets can be one of the most emotionally loaded discussions a couple has in a marriage. Maybe part of your family is closer, more involved. One of you may choose to help those less fortunate, the other to reward those who worked hard and demonstrated financial independence. Charitable giving may be a consideration for one, not the other.

Ron was devastated that his parents left money to his brother and sister but nothing to him. The family attorney explained that his parents' logic was that Ron was very successful in his career and didn't need the money. In contrast, neither his brother or sister had fared well financially, so their parents left money to them as a way of improving their situations. The explanation did nothing to soften the blow to Ron. "Our family fell apart after that," he explained. "I am so resentful that my parents showed such favoritism and left me out. This is an open wound for me and I just can't get past it."

If Ron's parents had held the conversation with him while they were creating their will, perhaps he could have explained his point of view, thus avoiding a shattered family after their parents' deaths.

Often it isn't even money that creates disappointment and hurt among beneficiaries. Ask your spouse if there are sentimental items, family heirlooms, etc., that they wish to pass on to a certain family member. Ask your family if there are items that are especially meaningful to them that they would enjoy having one day.

To get the conversation moving forward, I like to use the $100 bill list. I ask each person to pretend they are dividing $100 bills among family, friends, charity – any person or entity that is important to them. I then ask them to consider the reaction from those on the list once they see the division. This basic approach often highlights potential

problems. If son #1 sees that daughter #3 got more dollars than he did, what will that do to their relationship? You get the idea. It's a framework for helping shape your intentions.

It doesn't mean you have to give equally. However, both you and your spouse should compare your giving priorities and discuss any family dynamics that might surface once you're gone. At that point, you may wish to quietly share with beneficiaries what they might expect.

The death of a loved one is emotional and difficult. Clear and honest communication with your spouse and family will allow your family to focus on healthy grieving rather than conflict.

Bill, a retired executive, brought his wife, Helen, to see me several times. They attended an educational seminar I conducted, made an appointment to talk about my firm's investment approach, and attended my firm's annual social gathering. Bill explained, "I want Helen to feel comfortable with an advisor should something happen to me. I know she will work best with a female advisor. It's the best fit for her personality," he explained. "The greatest gift I can give to her and to me is to provide confidence about finances when 'that day' comes."

Make sure you and your spouse are informed about your finances, assets, obligations and financial concerns. Talk openly about the what-ifs. Understanding one's financial picture removes a great deal of anxiety when one spouse becomes widowed or seriously ill.

Risk – We'll Never Agree on That

Wife: Hide it under the mattress
Husband: Bet it all on Red #9

It is common that couples' views of risk-taking of assets do not agree. We all come to our attitude about risk through a lifetime of experiences, some wins, losses failures, gains. There is no right or wrong level of risk for any one person, but there is something seriously wrong if you can't identify what your risk tolerance happens to be.

Taking on a greater level of risk than is comfortable for you can create true anxiety and fear. Communicating your concerns can be difficult. Kathy worried about the ability of her and her husband's financial security based on volatile market conditions. "At this point in our lives, I believe we should really avoid losses. We don't have a way to recoup another market downturn. My husband, however, seems to think this market is doing nothing but going up. He has us invested 100% in the market. Am I right or am I wrong to worry?"

To answer Kathy's question, it's important to understand where her fear is originating. As a financial professional who focuses on income planning, I can plan with some certainty the amount of income that can be produced by a portfolio of assets. My personalized planning addresses guaranteed income, anticipated growth of assets, inflation, income generation and tax outcomes based on current tax law. Overlaid is the expected income requirement of the client.

Sometimes, illustrating these outcomes in simple terms is enough to satisfy concerns from a client like Kathy. However, some clients truly worry about the unknown of the stock markets. It is not unusual for one spouse to be at one end of the risk spectrum and the other to be at the extreme opposite end. How do you reconcile risk?

First of all, I ask the couple to take a simple quiz created by USA Financial and called "Conditions of Satisfaction Ranking Survey." The intent of the survey is to rank a person's priority of importance in certain areas related to money. There are no right or wrong answers but instead an opportunity to gain perspective about issues important to each individual, and to see where there is common ground. I encourage you and your partner to take this survey independently, and then compare answers to see where you are similar and where you differ. This becomes a great launching pad for constructive communication.

Instructions:

1. Read through each priority/concern and rank those in order of importance to you in this manner: Write in #1 for what is most important to you, #2 for what is of next importance to you, etc., with the least important receiving your #8 rank.
2. Give each priority/concern its own ranking number. Each number can only be used once.
3. Don't overthink your answers. The survey should take 10 minutes or less to complete. Remember that there are no wrong answers, only your answers.
4. If married, we advise each spouse to complete their own survey (we care about what you both think).

Rank	Priority/Concern	Any Comments?
	Safety - Eliminating or reducing direct market risk or loss from your portfolio	
	Liquidity - Having enough cash liquid for emergencies, hospitalization, long-term care, etc.	
	Growth - Accumulating more assets	
	Tax advantages - Reducing income and capital gains taxes on both growth accounts and income accounts	
	Fees - Reducing sales charges and management fees	
	Estate transfer to heirs - Such as planning for probate-free transfers, maximizing stretch IRA and Roth IRAs strategies, estate tax avoidance strategies etc.	
	Asset protection – Protecting your nest egg from long-term care expenses	
	Income - Establishing guaranteed monthly income streams to supplement your Social Security checks	

Final question: What do you consider to be a reasonable rate of return on your money? ____________%

Completing this survey opens a door to talking about concerns and risks that may be a focus for one spouse but not the other. Through understanding these concerns, we are better able to position risk levels when constructing investment plans.

In addition, sophisticated tools are used in our practice that allow us to metrically define a person's risk tolerance. We are able to create and/or evaluate a portfolio that is computer-analyzed resulting in a numeric score that defines the level of risk. It is in this way we can match one's risk tolerance to one's actual risk. This can guide conversations with couples about appropriate levels of risk. When risk is defined as a number rather than an emotion, it becomes easier to understand investment roles in the portfolio and to make confident decisions regarding strategies that will help produce results for the goals established in the planning process.

Talking through these findings will help you and your spouse avoid unnecessary worry, blame and frustration. We always revert back to the simplest of terms about investments. Investments and money are objects. They have no emotion. When considering your investment direction, focus on the analytical rather than the emotional. Money should have a job to do and your conversations should focus on ensuring that your savings are working appropriately based on your agreed levels of risk and income needs.

"Sam has always taken the lead when it comes to managing our investments," said Pat, married for 27 years. "I resented Sam's dismissal of my views about investment risk. When our advisor showed us a score representing the risk we were taking, it made me realize that Sam wasn't dismissing my views, he was including them; but he didn't know how to explain it to me. Our blended risk score was higher than my individual score, but I feel at ease with our portfolio and I am no longer wasting time feeling frustrated."

The key to agreement — and maybe compromise about risk — is to make sure you are looking at risk objectively and in an informed manner. As they say, stick to the facts, ma'am.

Another approach to help a couple who may have hesitancy or concerns about market risk is to employ risk-managed investment methods. In these portfolios, risk factors are continually monitored and investments are placed based on trends and reactions to market-changing conditions. It is through these tools that couples may validate each other's tolerance for risk without feeling that they have to give in to the other's more aggressive attitude.

That being said, it is important to respect your spouse's views about risk, even if yours are dramatically different. As a financial advisor, it is my job to marry the two perspectives to create investments that are designed to provide stability and meet planning objectives.

The main tool to financial harmony is financial communication. Remember, date night, once a month, will keep you in sync and on track to healthy financial dialog.

Chapter 4

Understanding What You Have to Give Up – The Three Components of Investments: Safety, Growth and Liquidity

By Mark Hansen

In today's world of investing, there are many options that it's easy to get confused about what is best for your planning needs. There is no ideal investment for all situations. A number of factors must be considered to determine what investment will best fit the objective. In this chapter, I will discuss the key factors to consider when investing money, the risk/reward tradeoff and the best way to establish an investment portfolio through effective planning.

In my experience, most mistakes are made with the way people invest their money. It could be due to not having a properly laid out financial plan or a misunderstanding of how each investment is best used. There is an abundance of information on the internet, which you should approach with caution because of the high volume of sales-related content that may or may not apply to you. Subjective viewpoints also exist on blogs from other investors. Making investment decisions from internet sources can be costly and may not properly align with your goals and objectives.

There are three components related to investments: safety, growth and liquidity. There is no investment that will have all three components. Many will have two or three, so you will have to give up one component to get the other two. Let's first define what each component is.

Safety

The biggest risk in investing is losing some or all of your money. When you choose to make a safe investment, your main concern is not losing your funds and preserving your principal. In that case, you will need to forego growth in most situations. Lack of growth from low-yielding, safe investments can be exposed to another risk called "loss of purchasing power." The yield on your investment is below the inflation rate or the increasing cost of goods. For example, if the yield on your safe investment is 2% and the inflation rate is 3%, then you are losing 1% a year of purchasing power. Over time this can have an effect on the value of your money. It can be a problem if you are in retirement and earning less than the rate of distribution, and also over time capital depletion will occur.

There is a place in a portfolio for safe investments, as long as there is also a component that can provide growth that exceeds the inflation rate. A diversified portfolio of different asset classes and risks provides the proper balance of safety and growth. Many safe investments may also not be liquid in the event you need to convert to cash. There may be penalties that apply, as in the case of CDs or secured non-traded real estate investment trusts (REITs). Under this scenario, you may have a safe investment that limits growth and liquidity, and therefore, it is important to understand what the objective is, how the investment applies, and if it is the best fit for your planning.

Liquidity

Liquidity is how easy or quickly you can convert an investment to cash for immediate use. Most liquid investments provide very little yield or growth, which is not important if your main objective is to have access to your money at a moment's notice. In financial planning, liquid investments are best used to hold cash reserves equivalent to three to six months of living expenses. Second, money can be accessed within a one- to two-year period for a large purchase, such as a car or down payment on a house.

Some growth type of investments such as mutual funds, stocks and bonds can be liquidated and will be available within a relatively short period but can also come at a time that is not ideal, like when market values drop. These investments are best suited for a longer term time horizon of five years or more.

The most common liquid investments are savings and money market accounts. The objective of these accounts is purely to provide immediate and easy access to cash when needed. The yields on savings and money markets are very low, especially in low interest-rate environments. The greatest risk to these assets is the loss of purchasing power, however, leaving large sums of cash in the accounts can be costly because inflation rates can be higher than the yields earned.

To summarize, liquid investments provide immediate access to cash, typically have low yields with very little growth potential but will provide safety of principal, unless held long term where loss of purchasing power due to inflation will play a part.

Growth

Investments designed for growth typically have longer term investment horizons requiring a longer holding period to realize the optimal growth potential. Longer time horizons are generally minimum five years or more, especially if it is a portfolio of securities related to stocks and/or mutual funds.

Higher growth type investments also come with higher risk and volatility and can have greater exposure to loss of principal. The longer holding period can potentially reduce the risk to capital if there are a few years that suffer losses. There are some high growth investment opportunities with short-term time horizons, but they may be very speculative with a high risk to capital loss. These investments must be

approached with caution, and never devote more than 10% of portfolio capital to limit risk exposure.

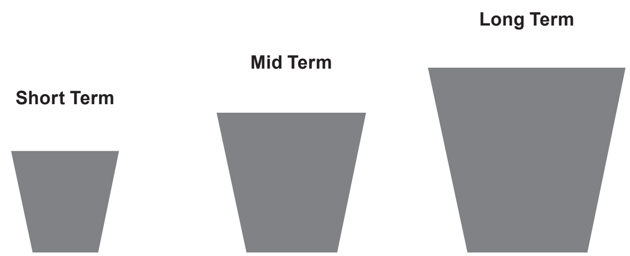
The three components of investments (safety, liquidity and growth) each have characteristics that will apply to different investments. Table 1 is an example of various investments and the character of each.

Table 1

Investment Type	Safety	Liquidity	Growth
Stocks		X	X
Bonds	X	X	Limited
Real estate	X		X
Commodities		X	X
Fixed annuities	X	Limited	Limited
Variable annuities		Limited	X
Options/Futures		X	X
Money markets	X	X	
CDs	X	Limited	

Three Buckets of Money

In order for you to properly align your investments to meet your objectives, you will need to categorize your funds into what I like to call the "Three Buckets of Money." The buckets categorize the money into three different time horizons (short term, mid term, and long term). They will hold investments best suited to the objective and different balances due to the objectives each will accomplish. As illustrated, the longer the time horizon, the larger the bucket. We will explore the use of each bucket and the corresponding investments appropriate for each.



Short-term bucket

These are funds for possible use in a one- to five-year time period. The emphasis and objectives of this bucket are for short-term cash reserves, which should be placed in a safe and liquid investment. It's recommended you maintain savings equivalent to three months of living expenses in case of an unexpected financial emergency.

An important component in financial planning is to have long-term disability insurance that will provide income benefits if there is a long-term illness or injury. They typically have a 90-day waiting period so the three months of cash reserves will cover the waiting period prior to benefits commencing.

You can also save for a vacation or car purchase. The emphasis is on liquidity and safety but not growth, because of the short-term time horizon for when the funds are needed. Investments appropriate for this are savings and checking accounts, money markets, short-term CDs and short-term bond funds. All of these will provide very little yields that are typically below the inflation rate. A risk-averse investor may keep large sums of money in this bucket for fear of losing capital.

It is true that short-term investments will not have any volatility or reduction in value (short-term bond funds can have some mild value fluctuations) but have exposure to purchasing power risk where inflation exceeds the yield of the investment and will slowly erode the purchasing value of the asset.

Mid-term bucket

These funds are for possible use in the five- to 15-year time horizon. The emphasis and objectives are for growth with liquidity options, if needed. Typical objectives that may fall into this category are college funding for children, a down payment on a house or vacation home, or any other goal that may be five years or greater and spent prior to your projected retirement. Various investments can be used

in the mid-term bucket but will be dependent on the underlying accumulation goal and objectives.

For instance, if one of the goals is to accumulate funds for a down payment on a new home, then you'll want to determine the amount of the down payment and the time horizon in which to meet the funding goal. Depending on the finance options, you may be required to put 20% down. On a $300,000 home, this would mean a $60,000 funding goal and most likely fall into the five- to 10-year time horizon depending on your income and ability to save.

Investment options can be stock mutual funds and/or exchange-traded funds (ETFs). With a minimum of five years, you can weather the volatility of the equity markets if there were a couple of poor performing years. These investment options can provide growth potential and also liquidity when needed.

A wide variety of mutual funds include large-, mid- and small-cap equity funds, international funds, bond funds and balanced funds that use multiple asset classes. To meet your risk tolerance, a diversified portfolio can be designed using multiple funds. It is always best to use at least a five-year time horizon when using a portfolio of funds, especially when equity funds are used.

College funding as a mid-term goal, in most cases, would require five or more years of funding. Using a 529 college savings plan would provide a tax-efficient investment vehicle to meet this goal and an opportunity for growth with various investment options. Included are age-based portfolios that are more aggressive in the younger years and becoming more conservative as they near college and the distribution years. The growth in 529 plans is tax-deferred and distributions are tax-free, as long as they are used for qualified education expenses. Liquidity is limited and withdrawals for anything other than education expenses will be taxed and penalized.[1]

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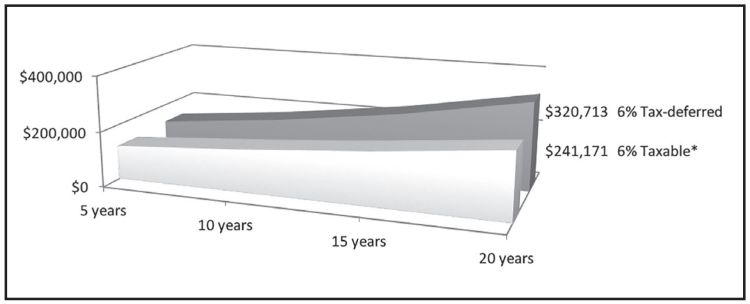
Buying a home and saving for college are good examples as each offers growth potential and liquidity. Using an investment that may be suited for the short-term bucket, such as a savings or checking account, would not be appropriate for funding the two mid-term accumulation goals. They lack growth potential, which is a key component to meeting the mid-term goal sooner.

Long-term bucket

These funds fall into the 15-plus-year time horizon. The most common goal in this category is saving for retirement and will be the largest amount of asset accumulation. The main objective is long-term capital appreciation and an emphasis on tax sheltering.

Safety can play a part as a person nears retirement and the objective of long-term capital appreciation transitions to capital preservation. The activity also changes from accumulation to distribution. Liquidity is typically not a consideration in the accumulation years and with most retirement funding vehicles, it's not an option or is one that comes at a great expense with taxes and early withdrawal penalties (prior to age 59½). Tax-sheltered returns can be important in the long-term accumulation goal. Table 2 illustrates the benefits of tax-deferred growth on $100,000 for a 20-year time horizon.

Table 2



*The illustrated 6% taxable is based on a 25% combined state (if applicable) and federal tax bracket, which is a 4.5% net after taxes.

There are three general types of tax-sheltered investments that are provided through the tax code: tax-qualified retirement plans, annuities and permanent life insurance.

Tax-Qualified Plans

These include 401(k), 403(b), IRAs, deferred compensation and profit-sharing plans. Contributions are tax deductible and growth is tax deferred. There are annual contribution limits with each plan. Distributions from tax-qualified plans can commence after age 59½ and is taxed as ordinary income. There are provisions in the tax code (Rule 72t) that do allow distributions prior to age 59½ without an early withdrawal penalty of 10%, as long as they are substantially equal payments or you have separated from service prior to age 55.[2] The proper application of this type of investment is for retirement planning only and should never be used for a short- or mid-term accumulation goal.

There are restrictions and limitations to the employer-sponsored plans (401(k), 403(b), profit-sharing and deferred comp) and they may or may not offer loan provisions. A loan provision, when taken from an employer-sponsored plan during employment, will avoid the early withdrawal penalty but will require repayment typically over a five-year period, with interest. You can take an early withdrawal from an IRA but at a high cost, which would be subjected to a 10% early withdrawal penalty and taxes. This can come at a cost of 25 to 45 cents on each dollar depending on your income tax bracket. See the IRS website for specific guidance on each type of retirement plan.[3]

One issue I've seen is that many people maintain a small savings for cash reserves and then the only place they have any substantial sum of money is in their retirement plan. When an event occurs and money is needed beyond their savings, they resort to using their retirement plan. This can come at a cost, because withdrawing money from a long-term capital appreciation position will reduce the value of the account down the road. There are a variety of investment choices that can be used in tax-qualified retirement plans. It is suggested to have a diversified portfolio of funds that will match your risk profile. The proper allocation is similar to how the age-based 529 college savings plans work where you are more aggressive in your early years and slowly become more conservative as you near retirement.

The bottom line is that tax-qualified plans can be very effective in saving for long-term retirement. They provide tax deferral on growth and tax deductions to lower your taxable income, but in no case should they be used in any other way because of the penalties and taxes that will apply when withdrawn early. They can provide growth and tax benefits, but you must forego liquidity as an option.

Annuities

Annuities are tax-deferred investments that are issued through insurance companies. Growth that is accumulated will not be taxed until distribution. They fall into the long-term bucket because they are subjected to the same rules that tax-qualified retirement plans have where 10% penalties apply on distributions prior to age 59½. There are various types of annuities such as immediate, fixed, equity index and variable. Each one will provide growth based upon the underlying investment component.

Annuities sometimes receive bad press because they are not used properly for investor goals. They offer limited liquidity so if an amount greater than 10% is needed in the early years, there may be a deferred sales charge that will apply. If incorrectly used, it can result in a costly mistake. On the other hand, they can provide an effective tax shelter for those that have a long-term investment objective and do not have a need for liquidity. The following is a description of the various annuities available. An understanding of them will help you determine the best fit for your planning. See Chapter 10 in this book, and the IRS website offers more guidance on these and other types of annuities.[4]

<u>Fixed</u>

- These provide a fixed-interest rate of return that is usually declared each year based on the interest rate environment. Typically, these rates will fall in the 3%–5% long-term target rate. They provide safety of principal but limit growth potential.

<u>Equity Index</u>

- Equity index falls under the fixed-annuity category but allows participation in various equity market indices but without the equity market risk. They also include a fixed-interest option. The performance tied to the equity markets is limited due to the participation caps applied by the issuing insurance company. These participation limits are declared each policy anniversary year. These also provide safety of capital with limited growth potential but do have the potential to provide higher growth rates over fixed-interest annuities depending on the equity market performance.

<u>Variable</u>

- These offer a wide selection of security-based investment options that are tied to the stock and bond markets. The performance is based upon the performance of the investment funds you choose. Your capital is not guaranteed, as it's in the fixed- and equity-index annuities. They have the potential to outperform fixed- and equity-index annuities based on the underlying investment choices.

<u>Immediate</u>

- A single premium immediate annuity (SPIA) is designed to provide an immediate income flow from the deposit of funds. In return for your lump sum deposit, the insurance company promises to make regular payments to you for a chosen length of time and most commonly for the remainder of your life.

There are fixed and variable SPIAs. The fixed SPIA will provide a fixed payout based on your age, amount of the deposit and the payout option chosen. The variable SPIA will pay out a variable amount also based on the amount and your age but will vary based on the performance from the security-based accounts. Immediate annuities aren't for everyone though, as this article highlights.[5] The IRS website also provides helpful information.[6]

Permanent Life Insurance

- Life insurance is first and foremost a risk-management vehicle to eliminate financial risk associated with a premature death of an income earner in the family.
- There are three types of life insurance:
  1) *Term* - Provides coverage for a certain time period at the lowest cost.
  2) *Return of premium* - Has a higher premium than term but will return all premiums at the end of the term.
  3) *Permanent life* – Builds equity and ownership and provides lifetime coverage. Cash values will build internally in the policy on a tax-deferred basis and can be accessed later tax-free through loan provisions to supplement income in retirement. The tax benefits of permanent plans can be an attractive vehicle to save additional funds in the long-term time horizon. It can also be an effective vehicle for maximizing pension benefits.

So far we have covered the three components of investments, safety, growth and liquidity and how all investments differ. The decision on which investment to use in your planning is largely dictated by your goals and objectives and having a properly designed plan to accomplish them. Lack of planning is where most investment mistakes are made.

The first step in the planning process is to determine what your short-, mid- and long-term goals are. Once your time horizon goals are established, then investments that will be most efficient in that time frame can be considered. I used the three buckets of money analogy to illustrate this concept. The short-term bucket is primarily for safe, liquid investments and no concern for growth. The mid-term bucket

is best for investments that provide growth potential with liquidity options, and the long-term bucket is best suited for tax-favored growth investments without liquidity until the long-term time horizon is met.

Let's see how these concepts apply in a planning application with two different case studies. The first case study is a family with multiple goals and objectives that fall into all three time horizons. The second is a retired couple in the distribution phase of their lives with completely different goals and objectives. These case studies are completely hypothetical and meant to illustrate the concepts discussed on the previous pages. Any rates or dollar amounts mentioned are not representative of any specific products, and some of the strategies used may not be suitable for every investor. You'll want to discuss various investment strategies with a financial professional before investing.

Now, let's review the different applications that apply to each.

Case Study #1

The Smith Family

John, 45, and Jenny, 42, have two children, Brian, 12, and Ella, 10. John is an engineer and works for a local civil engineering firm and Jenny is a high school teacher. Their combined income is $140,000 a year. They each contribute 10% of their earned income into their employer-sponsored 401(k) and 403(b) plans and have a combined value in their retirement plans of $350,000. They have $5,000 in liquid savings, $7,000 in credit card debt and $80,000 in inheritance. They own two cars, one being newer with a low-interest loan with three years left to pay off, and the other has high mileage and needs to be replaced. They would like both children to attend college and have $10,000 set aside for each in a savings account. They enjoy taking an annual vacation, which usually costs $10,000 and would like to retire when John is 65. They also want to purchase a vacation home that they can use and rent out.

Goals

Short term	Mid term	Long term
Cash reserves	College funding	Retirement
Car purchase		Vacation rental home
Credit debt		
Family vacation		

Plan Recommendations

Short term

- The Smiths only have $5,000 in their savings account and an $80,000 inheritance. Their monthly expenses are $7,000, so it would be suitable to have $21,000 in cash reserves. The main objective is to have access to cash for unforeseen emergencies. Liquidity and safety is the main objective. A good combination would be to place $10,000 in savings/checking and $11,000 in a short-term bond fund to receive some yield while still being liquid and safe.
- A car purchase is planned to replace their second car. It's recommended to purchase a low mileage car that is two years or older. Because of accelerated depreciation of a new car, this could help them save some money. A substantial savings can be realized and still get into an almost new car. A down payment and low-interest financing can be considered as opposed to paying all cash. Some of the inheritance can be used for a 20% down payment.
- Credit card debt should be paid off. Typically credit cards charge high interest rates and it's counterproductive to pay off over a long period. Having adequate cash reserves will eliminate the need to use high interest credit in the future.
- Family vacation can be a short-term accumulation goal funded by earned income and saved in their liquid savings/checking account.

Mid term

- The main goal that falls into the five- to 15-year time horizon is the children's college education. The cost of college increases twice

the rate of inflation annually, which makes funding two children through college a high-cost financial objective to accomplish.

- They currently have $10,000 for each child in low-yield savings accounts. These funds would be best invested in 529 college savings plans to provide growth potential and tax-sheltering and tax-free distributions. The 529 plan offers age-based portfolios effective in seeking high growth in the early years and being more conservative as they near and then enter college.
- Some of the inheritance funds can be invested in the 529 plan for each child to accelerate the accumulation. The 529 plans do limit the annual contributions to the annual gift limit per donor. The $10,000 for each child falls under the annual limit and can be deposited for each into an account.

Long term

- John and Jenny are doing a good job in saving for retirement at deferring 10% annually. John also receives a company match at 5% and Jenny has a state teachers retirement benefit.
- They have a desire to purchase a vacation rental home for retirement, which can be a high-cost item. To plan for this expense, you must determine in today's dollars what price range you would most likely purchase. Once the amount is decided, then a plan can be designed. If it would be used as a rental, income can offset costs of ownership and possibly provide a positive cash flow that can pay a mortgage, if needed. A detailed plan for this activity is necessary to effectively meet the objective. The residual inheritance after increasing cash reserves, paying off credit debt and a car down payment can be invested in a long-term investment. Various options to consider can be a diversified portfolio of mutual funds or a tax-sheltered variable or equity-index annuity as long as the eventual purchase is after age 59½. The tax sheltering can provide an added advantage to the total account value at time of distribution.

Plan Summary

- John and Jenny are able to accomplish their short-, mid- and long-term goals as illustrated by using the appropriate investments for the goal at hand. Each component provides flexibility based on the time horizon.

Case Study #2

Ed & Evelyn Jones

Ed and Evelyn are 65 years old and just retired. They are both taking Social Security early and the other income sources will be coming from their investments. They will receive a combined income of $3,000 per month from Social Security and will need an additional $3,000 per month from their investments. They have a combined value of $150,000 in their IRAs invested mostly in cash positions and $850,000 in their savings from real estate sale proceeds. They have a small mortgage at a low 4% rate that will be paid off in five years. They plan on doing a lot of travel in the next 10 years, as their health permits.

Goals

<u>Short term</u>
- Draw adequate supplemental income of $3,000 per month to support their traveling lifestyle.

<u>Mid term</u>
- To increase yields on assets to eliminate the erosion of their assets.

<u>Long term</u>
- Invest assets to provide higher growth to eliminate erosion of assets due to income draws and inflation.

Plan Recommendations

<u>Short term</u>
- They currently hold most all their assets of $1,000,000 in short-term cash positions earning 1% or less. If inflation averages 3% and they earn 1%, they will lose 2% a year in purchasing power.

<u>Mid term/Long term</u>
- Divest out of cash into a diversified portfolio of multiple investment components designed to provide growth, income and relatively safe positions.
- Various investments can be used:
  - o *Diversified portfolio of equities and bonds*: Provides some conservative growth to counteract the erosions of inflation and liquidity if needed beyond monthly income flows.
  - o *Tactical asset management*: Can provide growth and liquidity if needed. Tactical management approaches risk differently than a diversified portfolio of funds. It hedges market risk and has the ability to provide attractive return potential in up or down markets. The equity markets are much more volatile than they have been in the past and more advanced tactical strategies are effective as compared to static portfolios.
  - o *Real estate investment trusts (REITs)*: Can provide an attractive yield and be conservative depending on the underlying real estate portfolio. One that I have used for clients earns 6% annually and has an investment time horizon of three to six years. These provide attractive growth but limit liquidity.
  - o *Equity index annuities:* Can provide an effective tax shelter of assets that are not needed for income or liquidity purposes.

Plan Summary

The Joneses had completely different objectives than the Smiths because they are in retirement and the distribution phase of their life. They also had most assets in non-earning positions that would slowly erode in value due to inflation. Various investment vehicles were applied to each case that would improve their situations and accomplish their goals more effectively.

Conclusion

There are a wide variety of investments available and only a few are covered in this chapter. The key is proper planning and education. Although some of the sources here are from the internet, please use caution as it's not always a reliable source due to the subjective nature and sales-oriented approach many websites provide. It's recommended you work with a qualified financial advisor who has adequate experience in planning and investment management.

In conclusion, first focus on defining your goals and objectives related to time frames. Once you categorize your goals into the short-, mid- and long-term buckets, then you can start reviewing various investments that best fit the goal. Remember, it is best to Plan First, Invest Second®.

Chapter 5

The 5 Questions You Need to Ask Before You Hire a Financial Advisor

By Artie Bernaducci & Denny Frasiolas

According to an old Chinese proverb, "The best time to plant a tree was 20 years ago. The second best time is now."[1] While having a retirement income strategy already in place would be the ideal scenario for everyone, if you don't already have a plan, or, if the plan you have right now isn't producing the results you had hoped for, it's not too late to get started, or to start over, with the proper goals and strategies in place.

When it comes to saving and investing, many of us are at least somewhat familiar with the basics. For example, accomplishing milestones like paying off a debt, opening up a savings account, or even making the annual contribution into an IRA can be relatively easy.

But just like the difference between putting on a Band-Aid and performing major surgery, there are certain instances in our financial lives where it will be necessary to hire a professional. Retirement income planning may be one of those instances. And, with nearly 10,000 baby boomers retiring each day, more people will need income planning advice.[2]

People are living much longer than ever before, and the number one fear on the minds of retirees is running out of income before running out of time.[3] So, having a financial advisor as you approach this chapter of your life is essential.

Finding the right financial advisor can take some shopping around. Asking all the right questions up-front is well worth the effort, because you want someone you feel confident has your best interests at heart.

With that in mind, there are five important questions you should ask a potential advisor before hiring them. This list isn't necessarily all inclusive, but it does provide the basic foundation for you to gain a better understanding of the financial professional you are considering to help you establish and meet your financial goals.

1) What are your qualifications?

With any professional you would hire, you want to know about them, their background, training, education, and whether they have a specific credential that may be beneficial to your situation. Are they qualified to help you? Hiring a financial advisor might be one of the most important financial decisions you'll make, and it could be very influential in shaping your financial future. How do you know who is right for you?

The Financial Industry Regulatory Authority (FINRA) oversees the large majority of the securities/investment licensing requirements and procedures for financial advisors. This entity also administers many of the examinations that are required in order to become licensed to transact business in the financial markets.

Licensure

Some of the most common financial advisor licenses include:

- **Series 6** – An advisor is able to perform critical functions of an investment company and offer certain types of investments including the sale of variable annuities, mutual funds, and unit investment trusts (UITs).[4]
- **Series 7** – An advisor is able to perform the critical functions of a general securities representative and can offer a broader range of securities such as corporate and municipal securities, investment company securities, and more, and including those mentioned in Series 6.[5]
- **Series 63** – Also referred to as the Uniform Securities Agent license, it is for broker-dealer representatives and required by every state. It authorizes an individual to transact securities business within his or her state.[6]

Another great source of information is Form ADV. This form is used by investment advisors to register with state regulators, as well as with the Securities and Exchange Commission (SEC). On part 1 of the form, advisors must include information about their business and business practices, affiliations, any disciplinary events, etc. Although designed for a regulatory purpose, investment advisor filings of Part 1 are available to the public on the SEC's Investment Adviser Public Disclosure (IAPD) website at adviserinfo.sec.gov.[7] You can also find other information about financial advisors and their firms by visiting brokercheck.finra.org.

Of course another way to review an advisor's background is to look at his or her website, as well as their profile on the professional networking website LinkedIn (if they have one). Typically, this will provide you with some type of bio and background details, which should include where they went to school and how long they have been in the financial services business.

Designations/Certifications

Nowhere but in the world of financial services will you find such a plethora of certifications and a literal alphabet soup of letters after advisors' names that indicate a certain level of professional accomplishment. However, some of these designations/credentials require very little effort on the part of the financial professional, so the phrase caveat emptor (buyer beware) certainly applies. Unfortunately, there is not a universal standard for financial advisors, and there are over 100 financial advisor designations.[8]

With that in mind, it is important to have a good understanding of what an advisor's credentials mean, as some are geared more toward investing, while others lean toward insurance, employee benefits or other areas. Here are some of the more common ones that you might come in contact with:

- **CFP® (Certified Financial Planner™)** - An advisor must complete requirements set forth by the Certified Financial Planner Board, including various education requirements, such as a bachelor's degree, as well as passing the CFP examination. The individual must also have at least three years of work experience in the financial field.
- **CFA® (Chartered Financial Analyst®)** - Measures both competence and integrity. Before earning the CFA designation, an individual must first pass three levels of examinations. Topics covered include economics, accounting, money management, security analysis, and ethics.
- **RIA (Registered Investment Advisor)** - Can be either a person or a firm that is engaged in providing advice and making recommendations on securities either directly to consumers or through publications. As an RIA, the firm or individual has what is known as a fiduciary duty, which is a legal duty to offer recommendations that are suitable to the investor.
- **ChFC® (Chartered Financial Consultant®)** - An advisor must meet requirements in both education and experience with a minimum of three years of active involvement in the financial industry. The exams cover financial planning, income taxation, insurance, investments, and estate planning.
- C**LU® (Chartered Life Underwriter®)** - Training to complete is in the areas of life insurance and personal financial planning. Course topics include insurance, investments, taxation, employee benefits, estate planning, accounting, management, and economics.

- **RICP® (Retirement Income Certified Professional®)** - Typically held by financial professionals who focus their practice specifically on retirement income planning. This program places emphasis on how financial professionals can assist their clients in better overcoming risks in retirement such as rising healthcare costs, inflation, and outliving available income.

Unfortunately, just about anyone is able to call themselves a financial professional/advisor. This further emphasizes the importance of checking out an individual's background and their qualifications prior to moving forward with hiring them as the person or firm that will be giving you actionable advice. Possessing a specific license or qualification is not necessarily indicative of a higher quality of advice, much in the same way that not having certain credentials doesn't specifically translate into a lower quality of advice.

Even if they are a well-qualified professional, you still want to ensure they will be the best fit for you. This means asking additional questions to ascertain if they have a focus on the same aspect of planning that you are working toward. While a good advisor will ask you many questions to find out more about your situation, don't let your prospective advisor ask all the questions. You will benefit from doing some fact-finding of your own.

Some advisors might be more versed at helping their clients accumulate more wealth, but they may not have much experience in distributing wealth for the purposes of retirement income. It is absolutely essential to know what you are looking for in an advisor, and only then can you make the decision about what is right for you.

2) What exactly differentiates you from other financial advisors?

When meeting or talking with a potential advisor, you'll want to identify what differentiates them from other professionals that might be vying for you to become their client. Do they put your needs above theirs? Are they going to listen to what you say or simply try to sell you products? Has there been a high volume of complaints against them? If the advisor passes away, do they have a plan in place for who can help you? How did they handle client relationships and investments during past stock market crashes? Do they have a high client turnover? How do they get paid? Do they charge planning fees for their service or do they make money from product sales? If they don't charge fees, how are they staying in business and how can you be sure that their advice is in your best interests? If they are going to charge you, do not pay more than 50% upfront. There is not a single question that is off limits. In fact, don't be afraid to ask the tough questions – the ones that might make you or the professional a little uncomfortable. What you want to hear from them is that they are interested to know how you feel about your money and finances.

3) What services do you offer?

Not all financial advisors will offer everything you need. Conversely, a professional or their firm might provide you a long laundry list of services. If they don't offer what you need to meet your financial goals, then continue to look elsewhere. Some financial professionals are very focused within one aspect of the financial industry, and some professionals have a much more comprehensive approach.

With that said, you'll want to be careful of professionals who might be described as a "jack-of-all-trades." The risk with this type of professional is that they may be more focused on selling you something just to earn a buck as opposed to genuinely having your best interests at heart.

The other side of that coin that can be concerning is if the advisor provides you with only one or two product or service options. This approach might not adequately address your retirement needs. Many clients might find that a better option is to work with a professional that has a wide variety of products and services, so that the advisor can create a more customized plan for you.

One exercise that can be helpful is to first sit down and clarify what it is you are seeking. This will help narrow down which advisors to focus on, as well as which ones to cross off your list. Save yourself time and plan ahead. You may be looking for services such as:

- Retirement planning
- College funding
- Income planning
- Financial estate planning
- Social Security maximization
- Investment management
- Tax-reduction planning
- Insurance needs planning

Some of these services will overlap with one another, but there are certainly some unique characteristics to each of them.

For example, a retirement planner will help you in developing your retirement goals, which is great if you are still in the process of saving and investing for retirement, and this includes planning a comfortable lifestyle after you stop working. Things to think of and plan for are what age will you retire, where do you want to live, what kind of lifestyle do you want to have, and if you were to become ill during your retirement years, how would you pay for your care?

Many soon-to-be retirees need to set up a plan for how they will pay their living expenses during their retirement years; that is when an income planner can help. It is a different planning altogether. If you go with an income planner, make sure they can help you with decisions such as:

- **Whether or not you can (or should) retire before you start collecting your Social Security benefits.** Many people believe that the choice of when to retire and when to start collecting their Social Security benefits are one and the same, but they really aren't. In fact, making the wrong decision here can be extremely costly from a tax and financial standpoint. The Social Security website offers some helpful guidance, if an advisor cannot answer all of your questions.[9]

- **Whether you should pay more in taxes today or tomorrow.** Most people would think that paying as little in tax right now or deferring tax for as long as possible makes sense, and rightly so. But the reality is that this isn't necessarily always the case, especially when it comes to income planning.[10]
- **When you should or shouldn't spend your investment returns.** It is important to understand that taking withdrawals from a portfolio that has volatile returns means that you'll need to be more conservative with the amount you take out each year. Over time, some of the traditional withdrawal strategies such as the "4% Rule" have been challenged as no longer being safe for retirees, so it is important to determine what is best for each individual in terms of maximizing income, while at the same time preserving as much of the portfolio's principal as possible.[11]

An income planner can also help you to answer other key questions too, such as:

- How you may pay for health and long-term care needs.
- What is the best housing option for you?
- Whether you should annuitize some of your assets, or instead take systematic withdrawals from your portfolio.

Asking specific questions can help you better determine how they will work with you in both the short and long term, and it can help you in deciding if they will be the right fit.

4) How will you help me reach my retirement income goals?

Everyone's goals and dreams are different. What will make your retirement special and unique may be the complete opposite of the "golden years" that someone else has in mind. How will an advisor help you with your goals, and what are those goals?

It's been said that your retirement income will go a long way in determining your retirement outcome. It's clear that you will need income to help you in funding your post-employment living expenses. We typically advise clients to start planning for their retirement income 5-10 years before they wish to retire. This is the time frame where you can begin to define some of your goals. For example, paying off a mortgage, increasing your retirement nest egg, or helping grandkids with college expenses. Establishing a retirement income plan before your actual retirement date will help to give you a greater sense of confidence as you enter retirement.

Your financial professional should be able to clearly spell out the specific areas within your plan where they can bring value to your situation. Once you have defined your retirement income goals, an advisor should be able to articulate (in a way that you understand) exactly how they intend to help you to reach your goals.

You'll want to look for guidance on selecting the right pension option, determining the optimal time to take Social Security, and designating your assets for specific roles within your financial plan. Retirement income planning is about much more than an investment portfolio.

5) How involved are you in the planning process with your clients?

It is important that an advisor work closely with you to help you in reaching your retirement goals, especially as you get closer to your eventual retirement date.

While online investing and "robo-advisors" can make investing quick, easy, and convenient, it can also be highly impersonal, and quite frankly, it can oftentimes make you feel like you're standing out there all alone, especially when you need professional guidance the most.

From our experience, we have found that most clients prefer to be viewed as individuals rather than just "numbers" that fit within a cookie-cutter planning model. Before you ask this important question, you'll want to know the answer that you are hoping to hear. Some clients want to take an active role in the decisions that are being made for their financial plan, while other clients want to be more hands-off when it comes to certain aspects of it. Either way you prefer, it is important that you understand the recommendations that are being made so you can adequately evaluate the advice you are being given.

How frequently do you want interaction with your financial advisor? What are your expectations from him/her? How willing are they to work with other professionals that you may have (i.e., accountant, attorney, insurance professional, etc.)?

The best way for you to evaluate whether or not you have the right professional is to clearly know what your expectations from the relationship will be. Unfortunately, some financial professionals will tell you what you want to hear, rather than what you need to hear. Which type of financial professional do you prefer? One that is simply there to sell you something, or someone who will walk with you on your journey?

Taking the Next Step Toward Setting Up Your Retirement Income Strategy

When you stand at the foot of a mountain, looking up at the peak can seem a bit daunting. As the old saying suggests, every journey starts with that first step. Having the right guide to help you navigate the obstacles that you will encounter can help to make that journey a bit more rewarding. Choose your financial guide carefully.

Chapter 6

Who Needs a Financial Plan Anyway?

By Daniel S. Miller, CFP

Who needs a financial plan, a retirement income plan, or an estate plan? That is a good question. Are they only for those with vast amounts of wealth? Maybe they only pertain to those who have a complicated financial or family situation? Are they only needed by folks who already think they have all of their ducks in a row? Or, is it for those who are just the opposite? What about those families or individuals who don't really have a good handle on where they stand financially? Are financial plans worthwhile only for those who are somewhere in between in their financial journey? In this chapter we'll explore these questions and more.

"What I do is so different that I don't think anyone can help me," is something I heard one time from a new client who had a very unique occupation. He was a self-employed jeweler who custom-built high-end jewelry and sold the pieces to upscale jewelry stores for resale. His biggest concerns were, "What if I were to become disabled? What if I lost my eyesight or dexterity in my fingers? What if I could no longer practice my craft?"

At that time, he wasn't particularly worried about retirement or outliving his money. He wasn't really concerned with anything regarding retirement planning, because as long as he could work and make a great living, he could continue to put some money away for the future. In his particular situation, his what-if in life was also not about what happened if he died prematurely. He had purchased life insurance to help replace his income if he was gone. He was worried about living — living with a disability, that is.

He was concerned about how he would be able to support and provide for his family and how he would be able to continue putting away money for their future if he could no longer work as a jeweler. Everyone's situation is unique, and each one requires planning that is specific to that situation. There is no single plan that fits everyone's situation. There are no cookie-cutter answers or situations. That is where the value of working with a qualified financial planner comes in, one who is dedicated to providing unbiased retirement income and financial planning advice based upon each person's unique circumstances and needs.

In the jeweler's case, he continued to remain dedicated as we worked toward a sustainable financial plan. His situation, based primarily on protection planning initially, was the first step in a long-term income and retirement planning strategy. While he was still working, we met and reviewed his options for disability protection in case of a disabling injury that prevented him from working as a jeweler.

Next, we looked at his family's emergency funds. If he did become disabled and couldn't work, were there resources readily available to get them through for some period of time? Were there resources available to tide them over, at least buy them time until the disability policy kicked in? Or, in case a major expense came along that they had to address, were there funds easily available to them so they could get by? Without these first two considerations and strategies in place, the rest of their retirement income plan could be put in serious jeopardy.

Another consideration of a financial plan is also looking at current levels of contributions to their retirement accounts. By making just a few adjustments to their spending habits and budget, they should be able to both substantially increase their retirement plan contributions as long as they were both working. Also, we looked at better positioning their existing portfolios into a multi-bucket system for income planning. A portion of what they already had accumulated

was positioned so that it would generate a known income stream for them in the future at retirement. It created a pension of sorts that, along with their future Social Security benefits, they could rely on to provide a retirement paycheck that would at least cover their basic living needs as long as they lived. This helped both spouses be confident that regardless of what the future held, they at least wouldn't be penniless in retirement.

Were his concerns completely alleviated? No, there were tradeoffs that had to be made. It was not a perfect solution. There are still risks that they face. But at least he and his wife are both now more confident knowing that they have a plan and some protection in place in case the worst case happens.

This is what planning is all about. It is not a perfect process. It never is. It is working to best control the things that you can, and working to mitigate the effects or damage from the things you cannot control. And this process is different for everyone.

Planning Is for Everyone

So who needs a plan? It doesn't matter if you're young or old, in a rural area, Silicon Valley, work for one employer or many, or if you are white collar or blue collar, you can benefit from meeting with a qualified financial professional and remaining open to learning how best to manage your finances. By meeting with someone who can look objectively at your situation, you might learn something you didn't know, and you can become more confident about your finances as you pursue your retirement.

Working with a financial professional, you'll also have access to someone who knows financial matters, tax laws, reads up on Social Security changes, and can explain complicated financial concepts to you in plain English.

PROOF ONLY

Federal Employees

One particular group that I enjoy helping is federal employees. I feel strongly that the majority of federal employees are not receiving the guidance they need regarding their unique set of benefits. When I learned that one local department's human resources representative was informing employees that they didn't need to list beneficiaries on their Thrift Savings retirement accounts, I knew that I needed to learn more about the benefits for federal employees. I took it upon myself to become educated regarding these benefits so that I could help educate them about how their retirement system works and the benefits they are entitled to.

It's true that if no beneficiaries are listed, the funds will eventually end up with your heirs — or at least what is left of the funds, but what this HR rep also forgot to mention is that by doing it this way, these proceeds may now be subject to the delays and expense of the probate process. Instead of being able to receive the benefits in maybe a week or so as a result of a beneficiary designation, they may have to wait up to nine months or more until the estate has been settled. Also, if this participant doesn't have a will or a trust in place, the funds may not end up in the hands of whom they would have wanted after it goes through the probate courts.

I have made it my mission to fully learn and understand the federal retirement and employee benefits systems because I want to help with the disconnect between these employees and the benefits guidance they receive.

Protecting Your Rural Legacy

Having been raised on a working livestock ranch and crop farm in northwest Missouri, and having made my living working that operation before joining the financial world, I understand the needs of rural families and the issues they face.

Rural families often need help with succession and financial estate planning. One commonality that many people in my part of the country have is that somewhere in their family lineage, they more than likely have a tie somewhere back to the land and a rural way of life. It may be their great-great grandfather on their mother's side, or even farther back in their lineage. But somewhere, there is probably a tie back to the rural way of life.

In farm families today, it is not uncommon for there to be one or two children who stay to work the operation while the other siblings leave to pursue other careers. And there is nothing wrong with that. With the mobility and opportunities afforded to young people in rural areas today, it truly is sometimes hard to have an answer to the question, "How are you going to keep 'em down on the farm?" Because of these situations where some heirs are directly involved in working the farm or ranch and others are not, it can make succession and financial estate planning challenging for some rural families.

Rural families need help addressing the tough questions — questions such as when it comes to dividing up the estate amongst the kids, is "equal" really fair to all parties involved? If not, what types of tools or strategies are available to help address this?

For example, if one sibling stayed on the farm to work beside his parents to help build up their operation, is equal really fair when it comes time to divide up everything? The siblings who went off and did their own thing — do they deserve as big a share as the sibling who helped increase the estate of their parents to its current size? Mom and Dad may want to be fair, but they also recognize the work the on-farm child put into the operation. They wouldn't have what they do today without the effort that the farming heir put into the operation.

So how do you handle this? What is the best avenue to take? There is no single answer. Each family must decide for themselves.

But oftentimes, the parents may look for ways to help reward the farm heir, or in a sense, pay them for their "sweat equity" above and beyond the value their siblings will receive from the estate. Figuring out the answers to these questions is part of the financial planning process.

Or, maybe they want to make sure and keep the land together so the farming heir will always be able to use it. The parents may have spent their life building up their legacy, and they want all of the land to stay in one unit, in the family name, and not ever be divided. They realize this division could possibly happen if it ended up with the nonfarm heirs or their spouses. So, now they need a strategy or plan to help keep the farmland together while finding a way to equalize the estate assets in a manner that is fair to all parties.

The problem is that in most farm-family estates, the majority of the value of the estate is tied up in the farmland. Based on the elevated farmland values that we see throughout the country today, for some families the land may make up to 70%–80% of the total estate value. So if the goal is to keep the land all together in one farming unit for one heir, where do you find the resources to equalize the estate amongst the other heirs? Where is this value going to come from? These strategies may use tools such as life insurance combined with buy/sell agreements or multiple trust agreements, for example. Everyone's situation is unique. When you work with a financial professional, you also receive the services of the firms they work with including estate planning attorneys, accountants, and other professionals to help craft a strategy to fit your situation. Everyone deserves a strategy designed to protect the legacy they have built.

Just Starting Out

Often it appears that our society has sometimes left many young people woefully unprepared when it comes to managing their financial lives when they are just starting out. For many young people, this period is one of the most exciting and scary times in their lives. Many are

starting new jobs, they may be getting married, starting to pay back student loans, buying and licensing their first car, purchasing their first home or renting an apartment, starting families, filing taxes for the first time, securing their own health insurance, etc. This list of first-time financial events goes on and on! But up to this point, no one may have given them much guidance about each of these new firsts.

Unfortunately, many folks in our industry do not look at this group as worthy of their time or resources as they may not yet have many assets to manage, and the financial rewards from assisting them are minimal. This may be somewhat true, but I don't look at it this way. I believe that helping financially educate this group and assisting them along their fiscal journey, is at the core of our responsibilities as financial advisors. By using the tools and technology afforded to us, we can help prepare this generation to be good stewards of their resources and those assets that they will accumulate, or inherit, in the future.

It is important to remember that this generation of savers and investors has grown up in a time quite unlike that of their parents. With advances in technology and increased job mobility, this generation demands transparency and access. Gen X and Gen Y do not wish to turn their finances over to someone to manage — they want to be involved in the process. An advisor's job is to empower and educate this group as they progress through their financial life.

Changes and Opportunities

Heraclitus, a Greek philosopher, once said, "The only constant thing in life is change." And as we all know, this is often more true than we realize, especially for those in transition. These changes can be a result of a multitude of factors, such as retirement, a new grandchild, divorce, starting a new business, death of a spouse, new job, relocation due to new career, recently married; the list goes on.

PROOF ONLY

Those who experience these types of life events often need guidance to help them navigate the obstacles and opportunities that come with them. Each circumstance is unique, and each person going through it is also unique. Therefore, unbiased, professional guidance from an experienced professional can often be valuable during these periods of change.

For example, someone who may have unexpectedly lost their spouse may now be facing decisions and launching into a new way of life that is foreign to anything they have ever experienced before. And unfortunately, they have to make decisions at a time when they may not be emotionally stable or even be able to think straight. During this time, they also may be receiving advice from well-meaning family members and friends, but this sometimes adds to the confusion they may be feeling. A financial professional can serve as a pillar of reason and insight at this time, and is someone who can provide advice, direction, and stability from an unemotional standpoint.

Going through a divorce is another foreign, challenging, and difficult time of transition for many people. During this period, both parties are faced with decisions and changes in their life that may affect them and their families for generations to come. Choices and decisions have to be made at what is often an emotionally charged and tough time. This is another example of a time where we believe a client can extremely benefit from an unemotionally attached, trained financial advisor and receive some consistent and caring guidance.

Everyone's Different

So who needs a plan? I believe everyone does. People from all walks of life have their own challenges and obstacles when it comes to financial, retirement, and estate planning. I believe you owe it to yourself to work with someone who will listen to you and take the time to learn about your specific situation. And they should really listen and be interested in your goals, your dreams, your concerns and your fears.

Your situation is your own, just like the jeweler mentioned at the beginning of this chapter. You might think your situation is simple and your planning needs are pretty straightforward and that maybe you don't need help. But there is no way I, or any other planner, will know how to assist you or be able to share financial information with you unless you take that first step and talk to someone. So don't wait, the future is getting closer every day.

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Chapter 7

The Basics of College Planning

By Damian Rothermel, CFP

Do you have a student preparing to go to college? Are you wondering how to navigate the process of college planning and funding for them? I have been working as a financial planner since 1998, and I have seen first-hand how big a challenge it is for families to pay for their children's education without sacrificing their retirement. I have also seen the missteps families make and the thousands of dollars it has cost them. This has led me to actively be involved in college planning with my clients.

My goal is to educate families on how the college planning and funding processes work so they are better prepared. College planning includes career planning and guidance, college search and selection, admissions counseling, campus visit details and SAT/ACT test preparation. College funding involves financial aid applications, award letter evaluations and appeals and private sector scholarship assistance.

There are three things to clarify about a college education:

1. It's a necessity in today's economy.
2. It's expensive.
3. It's a business — a large business.

A college education is a necessity

You need to have a college education to compete in the modern workplace. There are many jobs out there that don't require a college degree, but typically they don't pay as well. In 2011, someone with a bachelor's degree made 84% more over a lifetime than a high school graduate.[1,5] A student with a degree from an elite or tier one college

makes almost eight times as much as a high school graduate over their lifetime.[2] Studies have proven that college-educated individuals often earn more than those with only high school diplomas. In 2015, adults with bachelor's degrees took home more than those with high school diplomas. Degree holders earned $48,500 a year, while diploma holders earned $23,900.[3] Even past studies with cumulative earnings by education level show that it makes a difference in your salary.[4,5]

Many companies may hire students out of high school, but if anyone wants to be promoted or move up in a job then a diploma is required.

A college education is expensive

According to the College Board, for the 2016-2017 academic year, the average cost of college tuition and fees is $9,650 for in-state tuition, $24,930 for out-of-state tuition for public four-year colleges and $33,480 for private colleges. Room and board averages $10,440 for public four-year in-state and out-of-state colleges and $11,890 for private colleges.[6]

College education is a business —a large business

You need to treat the financial aid process like a business. You would never go down to the car lot and sit behind the wheel and tell the salesman, "I'm dying to have this car. It is the only one we're going to look at. We're not going to shop around and we want it today. Would you give us a good deal?" Yet when it comes to paying for college, many families do just that very thing.[7]

Many colleges have endowment funds over $1 billion.[8] When a school has a large endowment (a fund of donated money that the institution invests), it can generate more cash for everyone on campus. Professors may get higher salaries, and students (in some cases) may get lower tuition and fees.[9] Following are a few strategies and steps involved in getting more money from the college or university that your child may want to attend.

The College Planning Process

I encourage parents to have conversations with their kids and ask them why they want to go to college. Your child should be able to tell you, and more importantly the admissions department, why going to college is important to them.

What matters most – the cost of college or what college to get into? For some, getting into a prestigious school can outweigh the cost of an education, and if your child is in this category, the priority is strictly finding the right and elite school. Getting a good deal on the cost of college could instead be more important so that going into debt is the furthest thing from your mind. You'll want to do your research.

Maybe you and your child will want both. I tend to think that most of us are going to college because of the type of career we desire, or we want a sense of security in the future for our family and ourselves.

Career Planning

Career planning is mostly about helping one figure out some career interests and discover what field of study to pursue. It's really hard to pick the right school when it's unclear what to study. Once the goal is determined, then it's easier to direct a student toward a career path that might help maximize their interests, abilities and values.

It doesn't cost anything to change your mind in high school about what you want to do. But once you reach college, it's no longer free. It's best to narrow interests first and figure out goals, and then focus on some options. That's when the college search and selection process can really begin.

College Search and Selection

There are thousands of colleges and universities in America, but most of them fit into one of three categories: community colleges, undergraduate colleges and universities, and graduate colleges and universities. Which one should you choose and what does each one offer? Some sites are pretty helpful and offer much information including descriptions of the types of colleges mentioned earlier, the costs, and they review and compare private vs. public school.[10] There's no such thing as a perfect college for every student, but there's one or even a dozen that are a better fit than others.

Many factors go into what school to choose, and what to major in is probably number one. But there are other things to consider too. Do you want to stay close to home or do you want live somewhere else? Are you interested in attending a large school or a smaller one, or does size not matter? USA Today College offers a list of 15 factors to consider when choosing a college.[11]

Students need to also ask themselves if they were in a freshman level chemistry class with 300 other students and they couldn't see the professor but watched him or her on a video screen, would that be the kind of classroom setting they could learn in, or do they want more interaction with the professor? Would it also be a tough class? In some larger public institutions, it can be how a freshman level class might be taught. So keep that in mind.

First, I recommend creating a list of schools (about 25) that meet your initial conditions. Next, start narrowing your list down to around eight or 10 based on additional research.

Another important thing to consider in your search is the student loan default rate for a particular college or university. Why is this helpful? Because if one college has a higher default rate than another one and you are unable to make payments on your loan or fail paying it back entirely, the consequences of a defaulted loan can be serious, including a lower credit score, seized tax returns, garnished paychecks and legal action.[12] Gallup also reported that student debt has been linked to worse health and less wealth.[13]

Students attending college are graduating with more debt on average and not being able to pay back loans keeps them from getting decent jobs after graduation, buying a home and investing money.[14]

It's also good to look at the conversion rate of a college, which is the number of students who were offered admission and who actually attend. This number is good to know because it will give you an idea of how tough the school will be to negotiate with if you decide to appeal your initial offer.

After you have comprehensively researched these schools, cut the list to six schools. I like to suggest that students apply to at least six schools, even if they are just dying to go to a particular school. It is OK to have a top choice, but let's not let them know that. You want to have four top choices, one safety school and one long shot. Having you apply to six schools shows the other schools that there is some competition.

Admissions Counseling

This is your student's chance to show who they are as an individual and to show the admissions officer why the school should be excited to have them attend. There are numerous applicants, and how will your student stand out? Showing attention to detail in the college application packet is a good way, and it should be an accurate portrayal of four years of high school achievements.

Putting together and creating the college application packet at the beginning of the senior year will put you ahead of competition when the schools open the window for admission applications. This will allow you to apply early and get in the front of the line and shows you are attentive and prompt. Edit your work, and make sure there are no grammar or spelling mistakes. You want to stand out for positive

reasons. Letters of recommendation are also an important part of the application and should not be overlooked.

Campus Visit Details

This is probably the most under-used tool in the entire process of finding the right school and laying the groundwork to get the best financial offer. Not only does the student get a chance to see what campus life is like, but you also get a chance to meet with the admissions and financial aid department.

You will want to visit during the school year and during the school week. The student should stay in the dorm and the parents should attend the visit as well. When you compare notes, someone may have picked up on something that the other may not have. Your student will be spending four years here and you want to get as much information as possible to make sure they are comfortable with the lifestyle. They'll want that too! The tours on campus are helpful, and your student might also want to spend some time with other students from different school years, professors and members of any extracurricular activities they are interested in.

Two additional people you should meet with are the admissions officer and the financial aid officer. Find out beforehand all you can about the school before meeting with the admissions officer, and your student should be prepared to tell the college about themselves. The meeting with the financial aid officer will allow you both to gain an idea of the possible funding package that may be offered. This meeting also allows the financial aid officer to become familiar with your financial needs. Both of these meetings should be scheduled in advance and the student should do most of the talking.

SAT/ACT Test Prep

The Scholastic Aptitude Test (SAT) and American College Test (ACT) are used by schools to provide a level of measurement for college of a student's skill by testing math and verbal abilities. Many high schools have various degrees of difficulty and these tests help the schools compare the students. The student should plan on taking the test more than once and submitting the higher score. There are numerous providers of test-taking strategies and these may be helpful to the student, especially if they do not test well.

The College Funding Process

Based on data from the National Center for Education Statistics, the 2013 six-year graduation rate for first-time, full-time undergraduate students who began their pursuit of a bachelor's degree at a four-year college in fall 2007 was 59%, that is, the 59% completed the degree at that college by 2013.[15] Some students never finish college for many reasons, including rising tuition, poor academic preparation and study skills, unsure of their major, work/life balance, and even family issues.[16]

Gift aid and self-help aid are the two types of college funding. Gift aid is just that, a gift. It does not have to be repaid. It can come in the form of scholarships, grants, tuition waivers and endowments. Self-help aid is money you either borrow or work for. The government, the colleges themselves, and the private sector are three sources of gift aid.

Financial Aid Applications

Before you are eligible for any need-based funding from the government or from the colleges, I recommend filling out a form called the Free Application for Federal Student Aid (FAFSA). This form makes you eligible for many types of financial aid, and FAFSA provides more than $150 billion in grants, work-study funds, and loans each year.[17]

The FAFSA is about eight pages long, looks very similar to a tax return and is very complex. It can be completed online, which is must faster, or you can download the PDF FAFSA and it's screen-fillable, or you can print and fill out manually. The time to complete the

form can vary from applicant to applicant.[18] Anywhere from 70-90% of applications turned in have errors, and those errors can cost you funding.[19] The data needs to be completed correctly the first time, or the mistakes will reduce the amount you receive or disqualify you from any funding.

Do not procrastinate! The FAFSA should be filed within the first week of the filing period. Financial aid is first come, first served, and one of the reasons students might receive more financial aid than others is because they complete their paperwork on time and correctly.

The Federal Student Aid website has detailed information about completing the FAFSA, how it's calculated and why you fill out the form. It's worth a look.[20] Applying isn't the last step though. Your FAFSA is processed and then you get an Expected Family Contribution (EFC), which your college uses to figure out how much aid you can receive. In many cases, the EFC has very little to do with what the family actually pays. However, a lower EFC is going to increase the family's eligibility for need-based funding, so helping the family to have the most manageable EFC possible is part of the process.[21]

There are strategies that may lower the EFC by thousands of dollars and increase the funding eligibility the family receives each year. Multiply those savings by four and you'll have the total increase in eligibility. It is important to stress that there is no guarantee what the EFC will be and everyone's situation is unique.

Parents, if your EFC is high, don't panic. It doesn't mean you won't receive any gift aid; it just means you won't be getting any money from the government. Even if you won't qualify for government funding, you should still file the FAFSA. The average adjusted gross income (AGI) for my college planning clients is over $190,000 with cash holdings over $28,000, investments over $134,000 and retirement accounts over $200,000. College planning continues to attract the more affluent families.

The formulas for determining need are somewhat complex, but included in the calculation is income in the kids' and parents' names and assets in the household. As a result, the first step in EFC minimization is often to get the assets out of the equations. 529 plans are included in the calculation, but traditional and Roth IRAs are not. Savings and investments, including rentals, are included. Rental property held in an LLC is not. Retirement plans such as 401(k)s, 403(b)s, 457(s), profit sharing and pensions are not included and neither are annuities nor cash value life insurance. Funds in the kids' name are included but funds in the grandparents' name are not.

Award Letter Evaluations

The award letters are usually sent during the student's senior year. Review all of these letters carefully. If a student has a college in mind and that college offers $8,000 in gift aid, is that a good offer, and how does one know? If the school normally offers $10,000 to families in your financial situation and students with your academic strength, it isn't a good offer. If they normally offer $5,000, then it is a good offer.

Let's talk about what you can do to try and get more money from the colleges. As I mentioned earlier, the schools do have a lot of money but just because they have it does not mean they are going to give it to you.

One strategy I like my clients to consider is to use a Roth IRA contribution for themselves with the idea of taking out the principal contribution at any time for any reason without any taxes or penalties. The growth on the money is taxable and subject to penalty if certain criteria are not met (college is not one of them). It's best to check the IRS website and review their contributions table.[22] The principal is taken first on any distribution from a Roth IRA so you can use the principal for college and the growth for your own retirement. This strategy is an example of keeping the assets out of the equation.

A 529 can be a very attractive vehicle for a grandparent as the funds can grow tax free. They shouldn't be overfunded though as money not

used for college is subject to taxes and penalty on any profits. There are a lot of details, including fees and taxes, that need to be considered in any EFC minimization strategy so be sure to work with someone who knows what they are doing.

Remember, the schools don't look at the money they give to students as a handout. They look at it as an investment. And in many cases, they make a nice return on their investment with students from affluent families. Those endowments don't grow simply by investment returns.

There are a lot of different steps and many different strategies that you can employ to try and maximize the amount of money a school will provide for you. One key is to keep your options open and separate yourself from the competition.

Private Sector Scholarships

These types of scholarships are awarded by companies, private foundations, and service groups. Thousands of these scholarships are available and the awarded amount differs greatly depending on who the provider is. The funds can be made payable to the school, student or both. Policies on how funds are treated can also be handled differently by colleges, and a school could reduce the amount of financial aid you receive if you receive a private sector scholarship.[23]

Something disappointing about the private sector is that it generally helps the school more than the student. Let's say the school offers a decent award and it is accepted. Now let's say your student wins a private sector scholarship from the local rotary for $1,000. That money will have to be reported to the school, and they could reduce the amount of gift aid already offered to you.

That is something I would consider appealing. If your student only applied to one school, what kind of chances do you think we would have of successfully appealing that? Do you see how this all works together and why starting the process early is so important?

Self-Help Aid

Nearly all financial aid packages are made up of a combination of gift aid and self-help aid. Self-help aid includes work study programs on campus where the student is offered a position to work while attending school. Student loans are widely used to cover the shortfalls and can be subsidized (the government pays the interest while the student is in school) or unsubsidized depending on need. Parents are often able to obtain PLUS loans, which help pay for education expenses not covered by other financial aid.

Decision Time

The final decision of what school to attend should be made by the student. Parents and counselors are obviously helpful but the final choice should be the student's. The information from the campus visits, the financial aid package being offered and any personal notes should be used to rank the schools. If one stands out more than another, your choice may be easy. If there are two or three schools that are very close, you can add in additional preferences until one school emerges as your number one choice.

Conclusion

If your student is committed to going to college and you are willing to do some work, you can get the best education at the lowest possible price. The biggest keys are starting early and having a complete understanding of how the process works.

Chapter 8

The Term vs. Permanent Life Insurance Decision

By Eddy Gifford

My financial planning career started at a large life insurance company. It was here that I began to understand the confusion and misunderstanding that people experience when it comes to life insurance and life insurance types. Over time I learned that most people choose an arbitrary death benefit based on something they heard on television, radio, or via conversations with friends and family. Once a person chooses a death benefit, they typically buy a term life insurance policy. This may or may not be the best course of action, but before deciding what type of life insurance to buy, it is important to understand the types of life insurance available.

Like the stock market, the life insurance industry is much different than it was 20–30 years ago. Many of our parents and grandparents had two options to choose from when they made the decision to protect their family, either term or whole life insurance.

Today, the scope of available options is much different. People have many choices of life insurance, including term, return of premium term, whole, guaranteed universal, fixed universal, indexed universal, and variable universal. Clients also have the ability to choose an insurance policy that offers only death benefit protection, as well as one with living benefits like disability income, and illness protection including terminal, critical, and chronic. This allows clients more versatility to truly customize a policy for their own needs. Now that you know the names of the options, let's explore each type in more detail.

Term Life Insurance

Term life insurance is the cash cow of the life insurance industry. In fact, some sources suggest that less than 2% of term policies ever result in a death claim.[1] This is primarily because policy holders end up lapsing the policy or outliving the term. This insurance is advertised on television, the Internet and radio boasting that you can get hundreds of thousands of dollars of life insurance for less than a dollar a day. Term life insurance is inexpensive when someone is young and healthy and expensive as they approach life expectancy.

Additionally, the policy owner has the ability to lock in a certain number of years, the "term." It could be as little as one year and as many as 35 years. Some companies even allow term to age 65 for a person who is 18 or older. In this way, term life insurance is similar to renting a house. At the end of a lease, can the landlord raise rent and/or force you to requalify for rent? Of course they can. Term works the same way. At the end of the term, a policy holder typically has to requalify for life insurance at a higher rate because of age and health. This makes term life affordable at a young age when the likelihood of death is low and unaffordable as they need it more and more.

We like to call term life insurance our "if" protection. "If" something happens and the insured does not die, depending on the insurance company the insured may be able to receive some or all of their death benefit while still alive due to a chronic, critical or terminal condition. "If" nothing happens, at least the policy holder is alive and well.

In this way, term life insurance is similar to other types of insurance in that if you don't use it, you don't get anything for it. The insurance company keeps the money and doesn't pay a claim because a client never has to submit one. That said, there are some companies that offer return of premium term life insurance if a policy holder is willing to pay two to four times more than a traditional term life insurance premium. If an individual purchases this type of term life

insurance and lives to the end of the term, the policy owner receives a refund of all premiums paid.

Whole Life Insurance

Whole life insurance has been around for as long as life insurance companies have been around. Typically, mutual companies offer this type of insurance in the form of dividend-paying whole life insurance. A mutual company is a private company in which the policy owners are the owners of the company. There are no stock holders to answer to, so generally speaking, the mutual company can drive more value to the policy holder. As its name would imply, whole life insurance lasts for a lifetime. It is typically five to 10 times more expensive than term life insurance, causing many outside professionals to label it as a waste of money.

On the other hand, the policy builds up cash value over time just like a homeowner builds up equity over time. In the long term (20+ years), the cash value net of insurance costs accumulates at a return similar to bond returns. The return received consists of guaranteed interest rates and non-guaranteed dividends. Most companies have paid dividends for as long as they have been in existence, but it is still important to ask about dividend history when considering the purchase of whole life insurance. The cash accumulates tax deferred, is accessible prior to age 59½, and is removable on a tax-free basis if a policy holder stays within the laws of the tax code.

It is important to understand that the life insurance policy has to remain in-force for life to maintain its tax-free nature. Should a policy holder choose to surrender their policy in the future, they pay income tax on all cash value gains above their basis. This can be catastrophic to a policy owner who has taken too much income from their policy as there is an income taxable event if the policy ever lapses. This is also why it is important to ask whether the policy includes overloan protection to protect against this potential income tax catastrophe.

As mentioned previously, the premium associated with whole life is typically five to 10 times more expensive than term life. In today's interest rate environment, the break-even point is roughly 12 years. For example, if a whole life policy has a premium of $5,000 per year, at the end of year 12 the cash value will be approximately $60,000. Assuming dividends remain intact and depending on the company, there is enough cash value in the policy to pay for itself after 18–20 years (referred to as premium offset). At that point, dividends and interest pay the premium. Cash values will still increase, but they don't increase as fast as if the policy owner chooses to continue paying premiums. The policy owner can add more money early on to the policy to reach the break-even or premium offset earlier, but it's not until they reach premium offset that they can actually reduce their premium.

Also, depending on the state the policy owner lives in, there may be asset protection advantages. For example, in my state of residence, Nevada, all monies inside of life insurance or annuities are 100% creditor protected. Whole life can be viable as a long-term financial tool, but if a person is unable to maintain the appropriate premium for at least 12 years, they could potentially lose all their money. Therefore, if a person is unsure of whether they can meet the premium requirements for whole life insurance, it may make more sense to purchase a term life insurance policy.

Universal Life Insurance

There are four types of universal life insurance: *guaranteed*, *fixed* (sometimes referred to as current assumption), *indexed* and *variable*. Guaranteed works like it sounds. The policy owner pays a specific premium for a certain death benefit. Guaranteed typically costs one-half to two-thirds less than whole life insurance but usually doesn't build up cash value.

The other three types of universal life have the potential to accumulate cash value over time and offer a lifetime death benefit if the policies are funded properly. Potential is an important word here, because instead of giving the policy owner a fixed premium to pay like whole life does, the insurance allows the policy owner to pay a minimum premium, a maximum premium, or anywhere in between to regulate cash value and death benefit. Also, cash value growth depends on the type of policy.

Fixed (current assumption) offers fixed-interest rates similar to bonds. *Indexed* offers a choice between fixed-interest rates or indexed interest rates. An indexed rate is a rate tied to an external index like the S&P 500 Index with some type of limitation. For example, some companies may offer all gains in the S&P 500 up to a maximum of 13.5%. However, should the index reduce in value, the policy holder receives 0%. This also allows the policy holder to start over every year. If the index started out the year at 800 and increased to 1000, there was a 25% increase and the policy holder would receive 13.5%.

In year two, if the market increased from 1000 to 1100, a 10% increase, the policy holder would receive 10%. In year three, if the market dropped back to 800, a 37.5% decrease, the policy holder would receive 0% and would not lose any cash value to market decreases. Then, in year four, if the market rebounded back to 1000, a 25% increase, the policy holder would receive 13.5% (see table for details).

Hypothetical Growth of $100,000 Using an Indexed Strategy with a 13.5% Cap

Year	Index Value	Market Return	Market Value	Indexed Return	Indexed Strategy Value
0	800		100,000		
1	1000	25%	125,000	13.5%	113,500
2	1100	010%	137,500	10%	124,850
3	800	-37.5%	85,937.5	0%	124,850
4	1000	25%	107,421.88	13.5%	141,704.75

Keep in mind the table is for illustration purposes only and does not take into account insurance costs for the indexed universal life policy or investment expenses and tax costs associated with the typical investment account.

Lastly, *variable* universal life insurance offers several investment options through separate accounts ranging from conservative to aggressive, much like the options available in a 401(k) retirement plan. Depending on the investments chosen, the variable universal life cash value could grow at 10% per year, or –10% per year, and there are no guarantees. Additionally, some variable universal life insurance companies offer an indexed strategy as an option, like the one illustrated above, within the entire menu of choices. This is why it is important to use a competent financial advisor when choosing to buy variable universal life insurance.

Survivorship Life

Survivorship life insurance is for two people and pays a death benefit only at the death of the second person. Survivorship whole life and survivorship universal life insurance are both available and cash values grow the same as individual life insurance. Sometimes survivorship life insurance can be an effective tool for covering estate taxes for higher net worth clients. Additionally, because the policy covers two lives, it's typically less expensive than individual policies. This can be beneficial depending on the purpose of the coverage.

Purpose

The type of life insurance to buy depends on the purpose behind the purchase. Some clients are looking for pure death benefit protection, while others are concerned about their current plan providing sufficient retirement income, what effect taxes could have on their estate, and increasing taxes in general. All these issues and more are important when determining the type of life insurance to buy.

The Retirement Planning Client

Pensions are rare in today's world and many have concerns over the viability of Social Security. Clients don't often realize it, but the bulk of retirement planning is their responsibility. First, they should know how much money they need on a monthly basis after taxes to have their desired lifestyle. Once they establish their monthly income goal, they need to determine the portfolio value needed to generate that monthly income. Keep in mind, portfolio value needs will vary due to risk tolerance and asset types.

Risk tolerance at retirement, as well as the rising cost of living due to inflation, is important to consider. For most, the reality is they will prefer to take less risk in retirement than when accumulating for retirement. If a person is unsure about how to derive these numbers, they should seek the input of a competent financial professional. If considering the purchase of permanent life insurance, it is important to work with a financial professional, preferably a Certified Financial ~~Professional~~™, also known as a CFP®. They should hold both investment and insurance licenses to help avoid bias when assisting a client with a decision. Once the client finds a financial professional, that professional should run analysis that shows the client what a potential retirement plan would look like if they use investments, permanent life insurance, or a combination.

should be "Planner" and all cap.

Another important question to consider with retirement planning is, "What is more important, income or account value?" Many would think that a larger account value is going to generate a larger income, but this is not always true. For example, if a person has $1,000,000 in a pretax plan like a 401(k), IRA, 403(b), a thrift-savings plan (TSP), etc., and they decide to take 5%, $50,000, from this account in retirement, there will be taxes due on the entire distribution. If we assume, for illustrative purposes, that taxes are due on that account at 25%, the client would pay $12,500 in tax and only get to keep $37,500. On the other hand, if they had $800,000 in a Roth IRA or life insurance cash values and decided to take 5%, $40,000, there would be no taxes due and they get to keep the entire $40,000. Obviously $1,000,000 is more than $800,000, but it doesn't necessarily generate more after-tax income. Additionally, depending on age at retirement, there may be additional penalty taxes on withdrawals from certain types of accounts.

Understand the Comparison!

Many times clients walk through my doors with preconceived notions of what they have and don't have, as well as ideas of how things work because of what they heard. They talk about how this is better or that is bad, and from my perspective they are comparing apples and oranges. When people start talking like this, I ask them one simple question, "Would you try to hammer a nail into a wall with a screwdriver?" When they answer the obvious no, I ask them "Why?" This at least puts things in perspective.

The question then becomes, what is a fair comparison when analyzing permanent life insurance for retirement planning against other financial alternatives. The general answer is this: Whole life insurance and fixed universal life is comparable to investment grade bonds, CDs and cash alternatives. Indexed universal life is comparable to bonds and balanced portfolios, although they offer less risk than the typical balanced portfolio due to the lack of market risk. Still, annualized returns will likely be similar to balanced portfolios in the long term. Variable universal life is the only life insurance product comparable to investing in the stock market, so if a financial professional tries to compare whole life or indexed universal life to a 100% stock portfolio, the potential client should run as fast as they can in the other direction.

Additionally, when comparing permanent life insurance as a financial alternative to other investments, it is extremely important to "max fund" the life insurance contract. This means a client should be paying the maximum premium allowed under IRS law for the policy to keep its status as a life insurance policy. Maximizing premiums will

minimize insurance costs and allow them to get the most for their money on the cash value in their policy. If they are not able to max fund the policy, the contract will still work if they commit to inflationize the policy, i.e., increase the premiums paid into the policy each year to account for inflation. If they can't do this, they need to reduce the death benefit until they are able to do so, or they need to find an alternative financial vehicle.

Income

Retirement planning comes down to income. It's very rare that someone will tell me how much money they want in their portfolio at retirement. Rather, they tell me how much income they want in retirement. This is important because there are a few things to consider as you transition into retirement whether that is next year or 30 years from now. The main things to consider are risk, tax consequences and fees.

For example, let us assume an individual starts saving $5,000 per year for retirement at age 30 and wants to retire at age 60. If the individual invests in an S&P 500 Index fund with minimal expenses and minimal turnover, there should be little, if any, tax consequence and returns should be almost identical to the index itself.

Let's say now the individual has a 100% stock portfolio with a basis of $150,000. If they choose to adjust their portfolio to a balanced portfolio consisting of 50% bonds and 50% stocks, there will be a tax consequence. In a perfect world, the individual would sell off half of the portfolio and use it to buy bonds, but we live in the real world. Most people will likely go to some seminar where a salesman will convince them to move the entire portfolio, potentially causing a huge tax consequence.

In today's tax environment, the capital gains tax would be 20% plus a Medicare tax of 3.8% for a total of 23.8%. Since tax changes do occur, check IRS.gov for more current information.

What about if that individual uses a variable universal life insurance policy, invests in the S&P 500 Index separate account, and funds the policy with $5,000 per year? In the 30-year funding period, insurance costs will vary between 1%-2% depending on how the policy was funded, age, gender and health status, in addition to insurance company variances.

Since any rebalancing at retirement will happen under the umbrella of the life insurance contract, there is no tax consequence when the individual adjusts to a balanced portfolio. Depending on the company, they may even be able to reallocate to an indexed portfolio that gives them upside potential with no downside market risk. This example can be repeated using whole life vs. bond investments and indexed universal life vs. balanced investments and is even more favorable in these circumstances. That's because bonds pay interest annually and the client pays taxes as earned. The same is the case for an individual with a 50/50 balanced fund.

A properly funded life insurance policy can outperform its comparable investment strategy for retirement planning purposes. Please keep in mind that a client must commit to max funding the policy for at least five years. If this is not a possibility, then do not use life insurance as a supplemental retirement income plan alternative.

This is when I get interruptions from clients and advisors asking why I'm not comparing the life insurance policy to a retirement plan like a 401(k), IRA, Roth IRA, or Roth 401(k). It's because there is an underlying assumption that most will first max out their retirement plans and then look for additional savings vehicles for their money. It is very difficult to outperform a retirement plan with a life insurance policy without using some type of leverage.

Leverage

Generally speaking, leverage is the use of other people's money to enhance an individual's rate of return on investment. A generic

comparison is real estate. If someone buys a $400,000 property and only puts $100,000 down, they are using leverage. If they pay $12,000 in advance interest that year and the property increases in value to $440,000, what is the rate of return? It's 10%. What about the return on investment though? They put $100,000 down plus $12,000 of interest for a total of $112,000. The gain on the real estate was $40,000, so if they sold, they'll receive a total of $140,000 (their $100,000 down payment plus the gain). This represents a gain of 25% on their $112,000, over twice the actual gain of the real estate … that's leverage!

Why talk about leverage? Some life insurance companies offer what are referred to as variable, indexed, or participating loans on their indexed universal life insurance policies. These loans allow a client to borrow money against their policy and still earn a return on the monies borrowed.

For example, assume a person has $1,000,000 in cash value and chooses to receive retirement income in the form of a loan instead of a withdrawal. Using the same company that has a 13.5% cap, the maximum borrowing rate is 6% (it is currently 4%). If they borrow $40,000 and spend it, the $40,000 is still in the account along with a $40,000 loan. The $40,000 will receive a 6% interest charge, or $2,400, so now there is a $42,400 loan. If the cash value grows by 7%, the $40,000 in the account grows to $42,800. By using leverage, the account grew an extra $400. That's a full 1% more than without leverage.

Fast-forward 20 years – the $40,000 loan balance has grown to $128,285. However, the account value stayed invested and grew to $154,787. An individual could use their account value to pay off the loan and have an extra $26,502. Leverage can be very valuable in the long term for a client, but it is important to understand how it works. Using leverage and only receiving a 1% spread could increase retirement income 30%–50% depending on the company and policy used. However, we must also note that there is always the chance that the interest on the $40,000 still invested in the policy does not keep pace with the interest on the loan. In these scenarios, the borrower would have been better off using a different method for this income. This is also why it is important to try to find a life insurance company that allows you to switch between leveraged loans and “wash” loans as often as possible. (A wash loan is a loan from the insurance company that charges and credits the same amount of interest to the insured, resulting in a $0 interest cost to the insured.)

Perm vs. Term?

The question becomes, “What type of life insurance should you buy?” First conduct a needs analysis with a financial professional. This will take into account all liabilities, assets, future income, etc., to establish a death benefit for a specific person, business or family. Then consider a budget and risk tolerance.

If a person can save $10,000 per year, needs a $1,000,000 death benefit, and requires a maximum funded life insurance policy at $10,000 per year that only buys $500,000 of death benefit, use a combination of policy types (perm vs. term).

The smart move may be to use $5,000 to max fund a $250,000 policy, buy a term policy for $750,000 that costs $1,000 per year, and use the other $4,000 to fund an alternative retirement plan like a Roth IRA. If all other retirement plans are maxed out, a competent financial professional can provide recommendations to determine exact death benefits for term and permanent.

We have already seen that the permanent life insurance policy can be a competitive financial tool assuming a person max funds the policy for at least five years, so it comes down to their personal risk tolerance, budget and liquidity needs.

Chapter 9

The First Step of Income Planning — Budgeting

By David Greene

Congratulations on making it this far. Planning for your financial future is never easy nor fun, but the end results can be worth it. I commend you for taking the first step. One way or another you have acquired this book and made it to this chapter. Not only is it in your hands, but you are actually reading it. From what I’ve seen, this puts you ahead of 80% of your peers.

If you are at, nearing, or even several years from the end of the accumulation phase of your life where the main objective is to accumulate as much money as you can, you will find this chapter helpful for the distribution phase (creating your own paycheck from your accumulated assets) of your life.

What do all of these end results below have in common? They each start with a plan and a goal.

1. Moving into a new custom home
2. An NFL team winning the Super Bowl
3. Winning the World Series
4. Being elected president
5. Retiring financially sound
6. <Insert your dream here>

I think I can safely assume you may have a goal in mind as you read this. Let’s say it is being able to retire comfortably. However, before thinking about this and living your retirement dreams, let’s slow things down a bit and start at the step before building a plan. I know you are saying B-O-R-I-N-G! Just stay with me. I promise if you master this unglamorous chapter, you will be rewarded with extra knowledge.

Create a Spreadsheet

At this point, most of us are somewhat computer literate, so I will assume you can create a spreadsheet, whether it is from Microsoft Excel, Google or another method. If not, that's OK. Break out the old paper and pencil and a calculator, and it'll work fine.

Before we can start our spreadsheet, what source does your money flow through? You probably enter all your transactions into some kind of software or online vehicle that you use as a check register. That will make the process somewhat quicker. If not, the next best place to start will be your online banking or with a copy of your bank statements.

I am not going to harp (OK just a little) on the importance of keeping and reconciling a bank statement especially in these days of identity theft. You know you should be doing that and not just relying on what the bank says your balance is.

Now that you have that handy, let's start with a piece of paper and pencil. Make a list of all of your expenses and the frequency you pay them. Start with the easy ones:

- Rent/Mortgage - $1,200 monthly
- Electric - $321 average monthly (3852/12)
- Cable
- Phone/Cell phone

The more time you spend on the above the better. Don't guess and say you think your electric on average is $300 per month. Look up your payments for the past 12 months, add them up and divide by 12. Now we have a real number you can justify. I know, I know, boring and unglamorous. Well, tell that to basketball player Michael Jordan who probably practiced more than most other players just so he could reap the benefits and be his best, or to the Super Bowl champs practicing the basics again and again in the heat of the off season or before it even started.

Still with me? Good! If you are like many, you coasted with creating a list of your monthly expenses that are a fixed amount or vary slightly. These would be things that when added up can really take a big chunk out of your annual cash flow. For example:

1. Gifts
2. Groceries
3. Starbucks® coffee
4. Going out to lunch on work days
5. Entertainment (movies/bowling)
6. Dining out
7. Charitable contributions
8. Deductions from your paycheck
9. Your balance due on last years' taxes
10. Money going into your savings, 401(k)

Keep in mind the more items you come up with the better. Afraid you missed some? Following is a list of common items. It's grown over the years but may be missing several of your expenses. It's not meant to be all-inclusive but just a reminder.

Expenses

Housing

- House Payment (principle and interest) or Rent
- Homeowners Insurance
- Property/School Taxes
- HOA Fees
- Homeowners Warranty
- Electric
- Gas
- Cable
- Water
- Garbage Removal
- Housekeeper
- Internet

- Pest Control
- Repairs/Maintenance
- Sewer

Transportation

- Auto Insurance
- Vehicle 1 DMV fees
- Vehicle 2 DMV Fees
- AAA
- Car Fuel
- Car Service
- Parking

Debt

- See debt spreadsheet (later in this chapter)

Health

- Medical Copays
- Dental Copays
- Medical Health Insurance
- Prescriptions
- Vitamins
- Medicare Premiums

Personal

- Groceries
- Dining Out
- Cell Phone
- Dry Cleaners
- Entertainment
- Gifts
- Public Storage
- Pet Care
- Salon
- Newspaper
- Magazines

- Wholesale Club (Costco/Sam's)
- Donations

Taxes

- Federal Tax Liability
- Social Security/Medicare
- State
- Balance Due or Refund

Savings/Investment

- Savings Account Monthly Deposit
- Joint Investment Monthly Deposit
- 401(k)/403b/IRA Contributions

Discretionary

- Trip to Europe
- New Car
- Kitchen Remodel

Do not consider an ATM withdrawal a valid expense. You need to list what the money was used for. If you withdrew $100 from the ATM for dining out, enter it in the dining out category.

How do you know if you have accounted for everything? Simple. List out your income. This is wages, investment income, pension, Social Security, etc. If it is income or money received, list it.

If done correctly, the income and expenses will be close. Ideally, they would match, but if we are within 5%, that's a great start. Your victory will come with a sound financial plan for your retirement.

Create a basic spreadsheet using Excel or something similar. You can also use one of the old-fashioned accounting pads. Remember the big, green pads with all the columns and rows on it? Also have a calculator.

Start with the income listed at the top of the sheet followed by the expenses. See next page for a sample table with fictitious expenses. For both the income and expenses, you will want to list items that may not apply now but will in the future. For income, this may include Social Security at different ages, pensions, money that will come out of your personal investment and 401(k) accounts. For expenses, it may be Medicare premiums, travel, or planned vacations.

In column A, simply put a brief description, followed in column B by the annual amount of the expense. Once you have those items listed in column A, go to column B and enter the annual amount of the income and expenses. When you are adding income, it would be better if you used your gross wages at the top, and in the expenses portion add any of the deductions that come out of your paycheck, e.g., federal tax, health insurance, union dues, etc. The shortcut would be to use your net pay and not to bother entering your deductions. I prefer the first and more annoying method as it will be more accurate in the end.

Notice I have totaled the income under my income items, and the expenses under that. By doing this, we can easily see the totals of both without the need to scroll up and down. Additionally, we have a row that shows our excess cash or a shortage of cash (the "plus/minus").

Our column B would typically relate either to our previous year or more commonly the current year, but we would be using annual figures based on the previous year instead of estimating an amount.

Now create several more columns for future years of importance. For example, if you are 60, add a current year column, and then add separate columns for ages 62, 66 and 70. This will help when we project income. Remember that things like health or life insurance premiums may change dramatically from a working year to a non-working year. Highlight the row that is the ultimate year you would like to retire. We can focus on any adjustments later to make that year work.

If you are unaware of what the figures will be in the future years, estimate to the best of your ability. This is meant to be very flexible and not static, and you can update this frequently over the years.

After completing the income and expense portion, go to the bottom of the expenses and start adding some financial dreams and discretionary items. Trip to Europe … why not? Add it under the year you plan to go. A new car – same process. By adding your financial wants here, it will give us the ability to see how well those items fit into your financial plan or how we can account for them.

Now our spreadsheet should list all current and future income, as well as current and future expenses. Although not perfect yet, things should be starting to take shape.

Year	20xx	20xx	20xx	20xx
Income				
Husband Wage	$101,650.00	$50,825.00	$ -	$ -
Wife Wage	$81,613.00	$40,807.00	$5,000.00	$ -
Husband Consulting	$ -	$ -	$15,000.00	$ -
Rental Income	$6,500.00	$6,500.00	$2,000.00	$2,000.00
Personal Investments	$ -	$15,000.00	$40,000.00	$10,000.00
Husband Soc Sec @ 70	$ -	$ -	$ -	$32,916.00
Husband Soc Sec @ 66	$ -	$ -	$25,040.00	$ -
Wife Soc Sec @ 66	$ -	$ -	$ 15,440.00	$ -
Wife Soc Sec @ 70	$ -	$ -	$ -	$21,010.00
Wife Pension	$ -	$ -	$2,500.00	$2,500.00
Total Income	$189,763.00	$113,132.00	$104,980.00	$68,426.00
Total Expenses	$126,226.00	$110,318.85	$96,648.50	$51,866.00
Plus/minus	$63,537.00	$2,813.15	$8,331.50	$16,560.00

Expenses	Annual			
Housing				
House	$26,400.00	$27,600.00	$27,600.00	$3,200.00
Electric	$2,724.00	$2,724.00	$504.00	$504.00
Gas	$492.00	$492.00	$1,104.00	$1,104.00
Water District	$360.00	$360.00	$600.00	$600.00
Homeowners Association	$300.00	$300.00	$300.00	$300.00
House Cleaning	$3,960.00	$2,400.00	$2,400.00	$2,400.00
Cable	$2,820.00	$2,940.00	$2,400.00	$2,400.00
Garbage Removal	$168.00	$168.00	$168.00	$168.00
Pest Control	$300.00	$300.00	$300.00	$300.00
Air Conditioning	$156.00	$156.00	$156.00	$156.00
Sewer	$216.00	$216.00	$216.00	$216.00
Prop. Taxes	$ -	$ -	$ -	$ -
Transportation				
Car-Fuel	$1,200.00	$1,200.00	$1,200.00	$1,200.00
Insurance 1&2	$1,920.00	$2,004.00	$2,004.00	$2,004.00
Vehicle 1 Payment	$1,530.00	$ -	$ -	$ -
Vehicle 2 Payment	$ -	$ -	$ -	$ -
Vehicle 1 DMV	$680.00	$640.00	$100.00	$100.00
Vehicle 2 DMV	$358.00	$455.00	$100.00	$100.00
Health				
Prescriptions	$480.00	$720.00	$720.00	$ 720.00
Vitamins	$180.00	$600.00	$600.00	$600.00
Medicaid Premiums	$ -	$ -	$1,120.00	$1,120.00
Health Insurance	$1,500.00	$1,500.00	$ -	$ -

Expenses	Annual			
Personal				
Dry Cleaners	$240.00	$240.00	$240.00	$240.00
Parking	$720.00	$360.00	$ -	$ -
Pet Care	$600.00	$600.00	$600.00	$600.00
Cell Phone	$876.00	$780.00	$780.00	$780.00
Newspaper	$432.00	$432.00	$432.00	$432.00
Magazines	$912.00	$912.00	$912.00	$912.00
Warehouse Club	$110.00	$110.00	$110.00	$110.00
Groceries	$6,000.00	$6,000.00	$6,000.00	$6,000.00
Credit Card #1	$12,000.00	$12,000.00	$6,000.00	$6,000.00
Credit Card #2	$3,600.00	$3,600.00	$3,600.00	$3,600.00
Salon Service	$1,800.00	$1,800.00	$1,800.00	$1,800.00
Donations	$1,200.00	$1,200.00	$1,200.00	$1,200.00
Taxes				
Taxes - Federal	$42,000.00	$18,500.00	$13,000.00	$13,000.00
Taxes - Soc Sec/ Medicare	$ 2,792.00	$7,009.85	$382.50	$ -
Savings/Investments				
Joint Investment	$3,600.00	$6,000.00	$ -	$ -
Joint Savings	$3,600.00	$6,000.00	$ -	$ -
Discretionary				
Trip to Europe	$ -	$ -	$20,000.00	$ -

If you are married, this spreadsheet should be completed with your significant other, and you both should have a grip on what the figures are, as well as a voice in what the future expenses will be. Just because you cut the lawn now doesn't mean you'll want to do that 20 years from now or even be able to. We might as well add that expense down the road. Same thought process for house cleaning services. The more time you spend on this now the bigger the reward later.

For taxes like federal and state, simply enter the figure from your tax return that says, "Your tax liability," not the taxes withheld, refund or balance due. You don't need to enter the federal or state taxes from your paycheck. If you do enter them, include a line as "balance due/refund from tax return" and enter your balance due. If you received a refund, enter it as a negative expense so it will subtract from the expenses. Social Security or Medicare taxes are deducted from your paycheck.

Wait – you and your spouse say that the spreadsheet shows a $30,000 surplus and you know that's not possible. Before you blame your significant other for hiding money, go back through everything and recalculate the items you estimated. Also, you should have a row in the expense column listed as savings and another for 401(k). Make sure any money you contribute to those accounts is reflected here as well. It's always a fun exercise when I meet with a couple and say, "Oh good, you had $25,000 extra last year. Where is that?" They both look at each other wondering the same thing. More times than not, we have a habit of underestimating the expenses. It's amazing how much two to three days of eating lunch out during the work week can add up over the months. Oh, and don't forget the Starbucks visits. Be as meticulous as you can by listing all items so it will be easy to eliminate/reduce some costs.

Finally, you alone or you and your spouse have reviewed the spreadsheet and are relatively confident in all the income and expenses for the current year and future years. Before you start to celebrate, save the spreadsheet under one name, and then save it two more times as contingency A and the third file as contingency B.

Now with your spouse, each of you take a spreadsheet – one takes A and the other takes B. Next, each of you privately review

all of the expenses and ask yourself: If I am the surviving spouse, would this income or expense apply? Would the expense be the same? What amount would it be?

We can now start making changes to our initial spreadsheet using the mental picture that you are the surviving spouse. Many expenses will change, some will appear that may not have been there, and some might disappear altogether. When finished, look at the income and make any final adjustments. You will lose one source of Social Security when one spouse passes away. A pension might also go away or be reduced. Doing this exercise might be a little depressing and morbid, but when done correctly it is satisfying to know that our partner will be OK financially, no matter who passes away first.

In 90% of all plans, things do not come out perfectly. If you have years that show a deficit, that's OK. It's the entire reason for this exercise so we can plan and make adjustments now instead of later. You don't build a house and then draw the blueprints after you run into trouble, right? We are writing out the blueprints for your retirement. The past few pages are a broad overview, but let's get a little more specific about general areas.

Income

Wages – List your gross annual earnings from your paystub. You may have to factor how many checks you have left in the year. Do some calculations to come up with an annual amount. If your earnings are not consistent, then just give a best guess as to what you are expecting. If you plan on retiring April 1 in a particular year, use only three months of income for that year. If you receive a pension, then that column might show three months of wages and nine months of pension. The following year will show no wages (providing you are not planning to work) and an entire years' worth of pension. If you plan on working part-time when you start to retire, enter some wages for the years that it will apply to.

PROOF ONLY

Pension - If you know what your pension amount and year will be, that's great. Enter it accordingly. If you have different pension options, that's OK. Pick the one you are most likely to go with and maybe highlight that cell a certain color in the spreadsheet so you will remember to adjust it in the future if needed. Same thing for the year you will receive it.

Social Security – The same here applies as it does with a pension. When I work with clients, I'll plan ahead and perform a Social Security Maximization Analysis. It tells us the year to start taking Social Security and the amount it will be. We adjust it in future years when the benefits change because of taking a spousal benefit and switching in a later year. If you are doing this yourself, then use the benefit calculators at the Social Security Administration website (ssa.gov). You could also use the figure from your Social Security benefits statement.

Personal assets - If you leave this as zero and all your plus/minus figures are positive, congratulations. This means your income will cover your expenses without tapping into your assets. If that's the case, are there other financial wants you may have, like an added trip? Or, possibly get more aggressive with your expenses and increase as needed. If you show a negative number, it shows the amount you will need to take from your personal assets to be in good shape. In the beginning of retirement, especially if it is for bridging the gap, it's perfectly common and agreeable to take from your personal assets to cover your expenses for a short time.

For example, maybe you retire at 65 and are showing a deficit every year until you are 70, because that is when you want to start collecting Social Security. Take Social Security earlier or let it continue to grow until age 70 and supplement your income from age 66 to 70 by taking from your personal assets. This will cause not only your Social Security to be higher but the survivor benefit, as well, which we will use on our contingency spreadsheets. Social Security is simply one piece to the retirement puzzle — the same with our cash flow spreadsheet and our

personal assets. Everything represents a piece to a complex financial puzzle we are putting together, and all the pieces interlock.

Other income –Rental income can be added a couple different ways. One is to look at Schedule E of your tax return. Take the profit or loss and add back in the depreciation, amortization, and auto mileage expense as they are non–out-of-pocket expenses. Subtract your mortgage payments (less escrow) if you have already accounted for that separately on your Schedule E. Now your net profit or loss from the rental property can be listed as a line item under income. Use the same process for self-employment.

Expenses

Housing - If you are still paying a mortgage, I recommend having two rows on the spreadsheet, one for the mortgage payment and the other for taxes/insurance. The mortgage payment column will eventually be zero and the taxes/insurance column in the same year will go from zero to whatever the taxes and insurance cost. You can either enter them separately, or enter together and separate later. You can also have one row for mortgage and reduce it to the lower amount in the year in which that happens.

Home maintenance – Don't forget to add expenses that may occur in the future, such as snow removal, landscaping, and cleaning services — those things that you may not want or might not be able to do later in life. We might as well plan now so that it's accounted for, so you don't have to worry about it 10 years from now. Be thorough.

Health – List prescriptions, co-pays, doctor visits, insurance and long-term care premiums, if you have them.

Paycheck deductions – When you list these, make sure you list everything including Social Security tax, deductions for insurance, etc.

Personal items – Groceries, cell phone, entertainment, dining out, dry cleaning, all pretty self-explanatory. For donations, start with what you are contributing and list different organizations separately. This will allow you to reject certain ones later when you need to save some money.

Debt – You can do this several ways, but, most importantly, we want to show the amount of debt repayment you have in a year including interest and your actual monthly payments. For my clients, I will add a second spreadsheet in the document that includes the debt, monthly payment being made, current balance, and interest rate. I then total the monthly payment columns and paste that value on the main spreadsheet for the current year. Don't underestimate the importance of listing monthly debt payments. That alone can often make or break your retirement plan.

I have done hundreds of these spreadsheets for my clients, and we constantly update them. After things seem perfect, we look at them again and update once or twice a year. The more you update, the easier it is. If you wait a few years, you will find yourself almost starting from scratch.

Completing the Retirement Puzzle

When I was a kid, and maybe this applies to you as well, I was taught how to put a large puzzle together. The first thing was to sort out all the pieces that had a straight edge on them, and then look for the four corner pieces. I put them all together and made the border. It was essential to completing the puzzle. Think of your spreadsheet the same way. Put your income planning essentials together to form the foundation for completing your retirement puzzle. Now that you understand how to create and manage your spreadsheet, it should be easier to review different hypothetical situations and make changes as you see fit. See how it will affect your financial future. Go ahead have some fun with it!

Chapter 10

Annuity 101:
Making Sense Out of the Chaos

By Brian C. Stivers

I began my career working for a large, well-known insurance company and was often baffled by the financial industry language because it was never clear. In 1992, I began my practice as a financial advisor in Knoxville, TN. After completing my insurance and securities licensing and training, I set out to build a successful practice with four primary focuses for providing retirement strategies to clients that could offer to:

1. reduce market risk for them
2. provide the potential for stable growth
3. provide potential lifetime income
4. leave a legacy for my clients' heirs

As a new advisor, I was overwhelmed with the sheer volume of investment options available to my clients: stocks, bonds, A-share and B-share mutual funds, real estate, commodities, precious metals, life insurance, and annuities were just the tip of the iceberg. I wondered how the average investor could ever make sense of it all.

Then came the tax implications: Nonqualified money, IRAs, SEPs, 401(k)s, SIMPLE IRAs, pensions, and a host of other tax-favored investment vehicles made it even more difficult for the average investor to know what to do. My concerns quickly turned to resolve. I was determined to partner with my clients to work through the challenges of investing and retirement planning to provide them with a plan that had the potential to achieve their hopes and dreams while staying true to the four core focuses that were the foundation of my practice.

Over the first few years of my practice, I dove into the various different investment options to see which ones had the potential to fulfill my clients' needs. The more I learned, the more I became convinced that the right type of annuities with the right features, in the right amounts, had the potential to turn the focuses of my practice into reality for my clients.

I would begin each of my appointments articulating my vision for my prospective clients. I would gather their personal information and formulate a formal recommendation how to achieve the goals they articulated. I would come to the presentation meeting with illustrations and proposals that I felt confident in. Commonly it would be a mixture of bank recommendations, stock and bond platforms, and annuities, and I would lay out the pros and cons of each. As I would go over the pros and cons of annuities, my prospective clients would be shaking their heads in affirmation that this was making sense to them.

Then it happened: I said the word "annuity"! Their demeanor often changed from affirmation to consternation. With one word, the appointment went from a direction of partnership to a direction of adversaries. Then the comments came fast and furious:

1. I've heard annuities are bad.
2. My friend, family member or current stock broker told me never to buy annuities.
3. The greedy insurance company is the only one that makes money with annuities.
4. The fees are too high.
5. The returns are too low.
6. You lose all your money when you die.
7. You lose control of your money while you are alive.
8. Annuities are too complicated.
9. You have to give the insurance company your firstborn. (OK, I made that one up.)

But my guess is, as you are reading this chapter, you have either heard or said some of the same comments. I spent the first few years of my career frustrated with the fact that I had potential solutions for many of my prospective clients but couldn't overcome one simple word – annuity.

It took me several years to figure out the problem was that many of the comments I was hearing were actually true. However, like so many issues, they were only part of the story or half-truths. So instead of entering a war zone for each appointment, I needed to enter a classroom for each appointment and spend less time arguing and more time educating in regard to the good, the bad, and the ugly of annuities.

Over the past 25 years, I've transitioned my practice from a sales organization to an educational organization. This chapter is actually the culmination of these past 25 years. I hope, in just a few pages, to begin the process of "making sense out of the chaos" that surrounds annuities. Along the way we will address the comments I heard and continue to hear from prospective clients. But before we move into the heart of the matter, I want to share one illustration that I heard while attending a workshop for like-minded financial advisors several years ago.

As we were discussing this very subject of the word annuity eliciting such a wide range of opinions and comments this advisor asked,

"What do you think of when you hear the word *nitroglycerine*?"

About 75% of the advisors said, "TNT" – it can blow things up.

But about 25% said, "Oh, no – it's a tablet you can put under your tongue when you are having heart trouble that can save your life!"

So the same word based on one's personal knowledge and experience can either kill you or save you. This was an eye-opening moment for me as an advisor. The word annuity based on your personal knowledge and experience has the potential to kill your financial plan or save it. My job as an advisor is to make sure we use the right form of the word. Hopefully in the pages that follow you will come away with a better understanding of what type and features of annuities have the potential to save and what type and features have the potential to blow up your financial plan.

Let's get started!

Understanding the Four Types of Annuities

Let's begin with just a simple and basic definition of the word. An annuity is a tax-deferred retirement savings vehicle created by and administered by an insurance company. Now let's be honest. That doesn't really tell you anything about what the investment is or how the investment can meet your needs. In the same way when I say the words "mutual fund," it doesn't really tell you what it is invested in or how it works.

So we need to dig a little deeper and understand there are four distinct types of annuities.

I. <u>Single Premium Immediate Annuity</u> – commonly known by the acronym "SPIA" or generically as "life income annuities."

This is one of the oldest forms of annuities. It has one purpose and one purpose only: to provide a lifetime income that you can't outlive or that can't be affected by changing markets or changing interest rates. You give your asset to an insurance company. Based on your age and gender (life expectancy), current interest rates, and other insurance company criteria, they provide you with a guaranteed lifetime income.

If you live past your life expectancy (long after your money has been used up), the income keeps on coming as long as you're alive. Sounds good so far. However, in its simplest form called a single lifetime payout, should you pass away before you reach your life expectancy the insurance company keeps the unused portion. It is the law of averages.

The people that die early help offset the people who live to 100 allowing the insurance company to guarantee a lifetime income.

It's important to understand, as with all types of annuities, there are many different versions. For instance, you can choose a joint payout. This form would provide a lesser guaranteed payout for both husband and wife until the second death. There are what we call "life with period certain." This means that it will pay for your life or a certain number of years (i.e., 10 or 20 years). If you die before the period certain ends, your beneficiary would receive payment for the remainder of the years. There are even a few that will refund any unused portion of your funds.

Pros:

- **Generally** provides the largest guaranteed income for the amount deposited

Cons:

- Could possibly forfeit unused money at death
- No future growth
- Irreversible decision

Who may benefit:

The investor who is looking for a set-needed amount of annual or monthly income with the least amount of capital investment may benefit. By designating the funds necessary to provide the needed income, the investor whose risk tolerance would allow it has the freedom to take more risk with remaining assets with the hopes of greater reward since needed budget has already been met.

Who may be harmed:

The investor whose primary objectives are growth and liquidity would be harmed in choosing a SPIA as there is no potential for growth and they generally forfeit all liquidity.

<u>II. Fixed annuity</u>

The fixed annuity is the most traditional form of annuity and is the simplest to understand. It is simply a guaranteed rate for a specific period of time. The two most common versions are a multiyear guaranteed annuity and an annual renewable annuity. In both cases, you generally are making a time commitment from three to 10 years.

With a multiyear guaranteed annuity, the initial interest rate is guaranteed for the full period of time. For example, if you deposited money into a five-year multiyear fixed annuity at 3%, you would receive 3% annually for all five years. In contrast, the guaranteed renewable five-year annuity would have an initial interest rate for possibly the first year then would renew each year at whatever the current renewal rate is for the insurance company.

Pros:

- Provides a guaranteed known amount of interest
- Is simple to understand
- **Generally** penalty-free amounts available throughout the annuity period that can range from interest only to a set percentage (i.e., 10% annually)
- No market risk with principal guarantee
- **Generally** no fees other than penalties for early withdrawals above the penalty-free amounts

Cons:

- Locked into a specific rate, which could be lower than rates in the future
- **Generally** a penalty known as a surrender charge is assessed for any withdrawals or surrenders of contract above the penalty-free amount

Who may benefit:

The investor who wants their principal guaranteed against any market loss, wants a fixed amount of interest they can depend on, and generally has a time horizon of five years or less may find a fixed annuity beneficial. I share with many of my clients that, in my opinion, a fixed

annuity is more of a savings account vs. an investment account. It has low risk with relatively low reward.

Who may be harmed:

The investor who is looking for market-type growth will usually be disappointed with the returns of a fixed annuity. Also, an investor who needs more income than the guaranteed interest rate can provide will see erosion of their principal.

<u>III. Variable annuities</u>

Certainly one of the widest used and most misunderstood types of annuities would be the variable annuity. I have found that many people believe that all annuities are "safe" just because it is an annuity. Saying it another way, they don't believe they can lose money. Variable annuities are actually a securities investment that benefits from some of the "insurance protections" that annuities can provide. The actual investment is not a guaranteed fixed rate. Variable annuities have accounts inside them called "separate accounts." Functioning in a similar way to mutual funds, the separate accounts can invest in stocks, bonds, real estate, precious metals, commodities, and a host of other investable assets.

The investor absorbs the accompanying risk for the underlying investment … meaning, if the investment goes down in value, the investor's account goes down in value. The insurance company decides how many and what type of separate accounts to make available. However, because it is an annuity it is possible to provide some insurance protections for an associated fee. Two of the most common would be a death benefit and a guaranteed withdrawal benefit.

The death benefit protects the investor's beneficiary(s) against principal loss in the event the investor died in a down market. The most basic death benefit provides the beneficiary with never less than the investor's deposit less withdrawals. Some variable annuities for an additional fee will "step up" the death benefit to include growth at certain intervals.

The guaranteed withdrawal benefit provides a guarantee for a certain level of future retirement income regardless of market performance. For example, an investor invests $250,000 at age 62 with plans of starting income at age 65. He/she decides they would like to take advantage of potential market growth but want to know for sure that there is a base income no matter what happens. Over the next three years the market goes down a cumulative 40% and the investor's account is worth $150,000. But the investor chose to pay a 1% annual fee for a guaranteed withdrawal benefit that would never pay less than 5% a year of the initial deposit for life regardless of market performance. This benefit would provide the investor with $12,500 a year for life even though the account is down 40%. Even if the investor's account went to $0 through a combination of market losses and withdrawals, the investor would continue to receive the $12,500 for life.

Many of the variable annuity guaranteed withdrawals provide a step up where gains are locked in periodically where the future income would be based on a higher number. So, as opposed to the scenario above, let's say the investor from age 62 to 65 experiences a 40% gain where their account was worth $350,000 and the guaranteed withdrawal benefit stepped up and locked in the gain for the guaranteed income. The investor's 5% withdrawal benefit would be based on the $350,000 step-up so they would have a guaranteed lifetime income of $17,500 a year (even if their balance went down in the future due to market losses or withdrawals).

WARNING

I mentioned that this form of annuity is quite often misunderstood. Many see the insurance protections of the death benefit and the guaranteed withdrawal benefit as a guarantee against market losses. This isn't the case. The actual annuity is worth the amount that the

actual investments are worth. If the investor panicked when the market went down 40% and the value of the account was $150,000, and the investor surrendered the annuity, the investor would receive $150,000 thus losing $100,000.

Pros:

- Participates in the upside of the market based on separate accounts chosen
- Tax-deferred growth potential for nonqualified money
- Potential protection for beneficiary(s) against market loss with a death benefit rider
- Potential guaranteed retirement income regardless of market performance with guaranteed withdrawal benefit
- Simplicity of a diversified portfolio using various fund managers and asset classes within a single account
- Penalty-free annual withdrawals during the annuity period are generally available

Cons:

- **Generally** penalties for withdrawals that exceed the penalty-free provisions
- Risk to principal through market loss
- Actual returns can be dampened by excessive fees when administration fees, investment fees, and insurance feature fees are added together

Who may benefit:

1. The investor, based on risk tolerance, willing to absorb a certain amount of market risk for a potentially higher return with some protections for their beneficiary(s) against market losses.
2. The investor who is willing to pay a fee to have a guaranteed income for life while still keeping their funds vested in the markets.
3. The investor who has nonqualified investment assets and would like to invest in the markets yet has tax-deferred growth until they withdraw their gains or until they pass away.

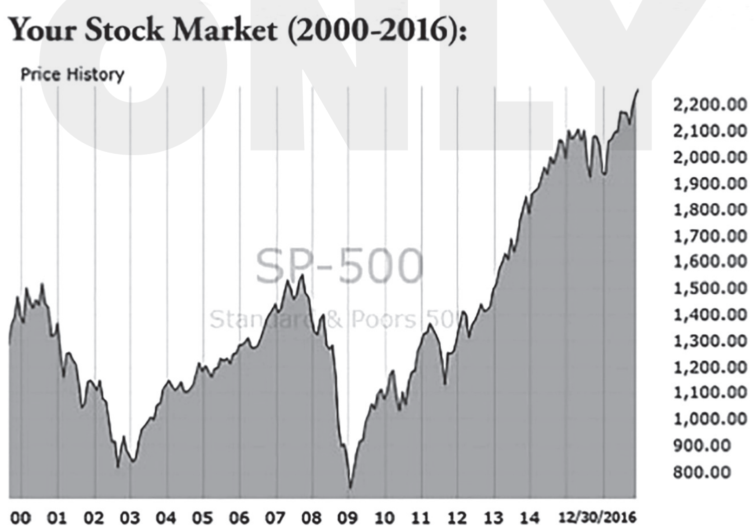
Who may be harmed:

1. The investor who has a low risk tolerance and has trouble tolerating the ups and downs of the stock market, thus creating their assets to go up and down, should be cautious in choosing a variable annuity.
2. An investor who is comfortable with risk and is fee sensitive and would be bothered by paying fees for some added protections should be careful before investing in a variable annuity.

<u>IV. Fixed or equity indexed annuity</u>

(often known simply as an indexed annuity)

Over the past one-and-a-half to two decades, the average investor experienced two conditions in the economy that potentially negatively impacted their retirement savings and their ability to have income that they felt comfortable would last a lifetime. The first has been a volatile stock market. The chart shows the rollercoaster ride the market has been on since the year 2000.



Source: USA Financial

The second economic condition has been ever-declining interest rates. Consider what the rates were in the ’80s and ’90s vs. today. In 1983, right after my beautiful wife and I were married, we combined our

life savings of $10,000 and went to the bank to open our first certificate of deposit, also known as a CD. We were given 12% for a one-year CD. Those days are long gone.

When it comes to annuities, these two economic conditions have had an impact as well. Fixed annuities that I described earlier saw their rates fall as interest rates fell. Throughout the first two decades of the 21st century, the direction has mostly been one direction – down. The variable annuity I discussed earlier has been impacted in the same way the general direction of the market has been. Again, look at the rollercoaster stock market chart. By the mid-2000s, my average client or prospective client was asking if there was anything that could provide the potential for greater returns than the traditional fixed annuities or bank accounts and yet protect their principal against the market loss potential of the variable annuities or traditional stock/bond investments.

Fortunately for my clients and for the success of my practice, there has been an innovation in the insurance world that at least gave the potential to overcome these two obstacles. It is our fourth type of annuity called an indexed annuity. The indexed annuity begins with a contractual guarantee from the insurance company against market loss. Principal can be affected by fees and withdrawals but not by a down stock market or “index.”

Second, the potential rate of return is not a fixed guaranteed rate. Instead it is based on the underlying performance of an index. Initially, indexed annuities commonly used the S&P 500 Index as the underlying index that interest would be based on. But in recent years, many annuities have introduced managed indexes, risk-controlled indexes, bond indexes, gold indexes, and a host of other indexes to deal with the ever-changing markets.

Indexed annuities were designed to give you some of the upside potential of the market without any downside risk. This is accomplished in many different ways. A few of the most common would be a "cap" where the upside of the market is capped at a certain percentage that is frequently significantly higher than fixed interest rates. Another strategy may be a "participation rate" where you get a certain percentage of the upside.

For instance, let's say you have an indexed annuity with the S&P 500 that has a 60% participation rate. This means that you get 60% of the upside. If the S&P 500 was up 10%, your account would be up 6%. Another common strategy would be what is called a "spread." If an account had a 3% spread, then you would only receive the gains above 3%. If in a given year the S&P 500 Index was up 8%, you would receive 5% after the spread was applied. In addition, often there will be associated fees that can further limit the upside.

Before I get to the pros and cons of this form of annuity, let me at this point interject what you may already see as one of the biggest cons: They can be confusing. And we haven't even addressed the many features that can be added for a fee for greater protection for future income, enhanced growth, or an enhanced death benefit.

However, for many of my clients they have found it's worth a period of education for the potential to protect their principal, provide the potential for stable growth, and have options for income for life when using a feature that will be discussed shortly called an "income rider." In essence, the indexed annuity was designed to take some of the features of the other three types of annuities and combine them into one. You have the protection of principal that a fixed annuity provides, you have the potential to participate in a percentage of the market gains like the variable annuity, and you have options for guaranteed lifetime income like the SPIA without giving up control of the asset or forfeiting any unused portion at death. Because of this, there are many that refer to the indexed annuity as a "hybrid" annuity. Please be aware there is no such thing legally as a hybrid annuity. It is simply a marketing term that some use.

Pros:

- Principal is protected against market loss
- Stable growth potential through participation in market gains
- Potential for lifetime income through the use of an option called an "income rider" (This will be discussed in detail shortly.)
- Pass all unused portions of principal and credited interest to beneficiary(s) while normally bypassing probate
- A variety of index strategies to choose from depending upon annuity chosen
- Penalty-free withdrawals are commonly provided after the first year for up to 10% of the balance (will vary depending upon annuity chosen)

Cons:

- Can be very confusing because of the variety of strategies and features available
- Due to complexity, they are often misunderstood or even misrepresented by some
- Fees can be excessive if features are added that are neither needed or desired
- Because of the protection against market loss, the upside potential will be restricted in some way compared to an investment with market risk
- Penalties may be assessed for withdrawal in excess of the penalty-free amounts

Who may benefit:

The investor who has an investment or retirement asset that wants to protect their principal against market loss, have the potential for stable growth, and wants the potential for guaranteed lifetime income without giving up control of their money would most commonly consider the indexed annuity. This investor should feel comfortable that the penalty-free withdrawals offered during the annuity period are sufficient to meet their needs and they have other liquid assets in the event of an emergency or unexpected expenses.

Who may be harmed:

The investor who needs full liquidity vs. penalty-free withdrawals should avoid the indexed annuity (as well as most other forms of annuities). In addition, the investor who has a high risk tolerance and is expecting the full upside of the market should be cautious while considering an indexed annuity.

Wrap-up on the four types of annuities:

The descriptions in this chapter are designed to give you a broad view and general understanding in regard to the different types of annuities. The challenging part as an advisor and an author is to convey a balanced view without going over the many different variations of each. As you begin to research the various types of annuities you will find variations that can adapt to your personal needs and desires. For instance, I've mentioned several times throughout this chapter that there are associated fees with the investment strategies and features offered. But there are versions of some of the annuities that have minimal to no fees. Commonly they will have less growth potential or fewer features, but they can still meet many needs while restricting the fees.

I've also mentioned that there can be penalties for a period of time called surrender charges. The length and amount of these vary greatly depending upon the type and features you choose. For those financial advisors, friends, relatives, or financial writers that make general statements (both positive and negative) regarding all annuities, I find they are doing a real disservice to the investor. Because there are many different variations to overcome, including some concerns and fears for the investor, there are also many variations that can do great harm if applied in an unsuitable way.

Common features available on some annuities (often for an associated fee)

Now I will outline a few of the common features that are either included or can be added for a fee on many of the annuities available in today's market.

#1 — Income rider or guaranteed withdrawal feature:

For those investors who are developing a retirement income plan to supplement Social Security, pension, or other investment income, this feature is by far the most popular but often misunderstood in regard to annuities. For indexed annuities, this feature is commonly called an "income rider." For variable annuities, it is more commonly called a "guaranteed withdrawal benefit." The income rider calculates a guaranteed future income based on guarantees, annuity performance, or a combination of the two. It is designed to give an investor/retiree more confidence no matter how long they live. If future interest rates change or no matter how volatile the markets may or may not become, there will be an amount of income they can depend on for their entire life.

It is often available on single life (investor only) or a joint life (investor/spouse). Once triggered, the income is guaranteed for life even if the annuity account goes to $0 due to withdrawals and/or lack of performance. A common feature of income riders and guaranteed withdrawal benefits is that the calculation for future income will grow at a guaranteed rate. For example: Let's say you see an ad on the internet that has a guaranteed growth rate of 6% compounded growth for income purposes. Does this mean that your investment has a guaranteed growth rate of 6%? ABSOLUTELY NOT! What this means is that part of the calculation to determine your future guaranteed income will grow by 6%. Another part of the calculation is called the "withdrawal percentage." This is the percentage of the balance achieved with the 6% growth that you are going to get for a lifetime of income.

Is your head hurting yet? Mine is even as I write this. But it's so critically important — just hang in there with me for another few moments.

So let's say you are 60 years old and you either retire, change jobs or have what is called an in-service distribution with your 401(k). You have a $250,000 401(k) you want to roll into an indexed annuity to protect your principal, have potential for stable growth, but most importantly have a guaranteed income at age 66 when you reach your normal Social Security retirement age.

You meet with an advisor who puts you in ABC annuity. Because of your need for income, a recommendation is made to pay a 1% fee for an income rider that will be guaranteed income for life should you trigger an income at age 66. You are told that the income rider is guaranteed to grow at 6% until you start your income (the annuity industry calls this a rollup rate). You are also told that the withdrawal percentage (factor) is 5% at age 66. The income rider would calculate your guaranteed income with the following formula:

$250,000 + 6% compounded growth for 6 years = $354,629 times 5% withdrawal factor =$17,731 annual income for life

So is your actual value of your account worth $354,629? Probably not. It is going to be worth more or less based on the performance of the actual investment.

This is where many people give up trying to understand annuities. They confuse the features with the investment. The income is only an option. But it can be a very effective option if understood and applied properly for income planning purposes.

#2 — Bonus payment:

Many annuities offer a feature called a "bonus" payment. This is generally a percentage of your deposit that is added to the account either

on day one or over a period of time. Staying with our earlier example of the $250,000 401(k) *rollover*, if you chose an annuity that offered a 5% bonus payment on day one, your account would start out on day one at $262,500. This feature is often paired with other features such as the income rider or the following feature (enhanced death benefit) with an associated fee.

It's important to realize as long as you don't cancel the annuity during the annuity period, the bonus is there in your account growing and compounding and will be part of your overall investment. However, most annuities will take the bonus back or reduce it if you don't fulfill your commitment to the insurance company.

#3 — Enhanced death benefit:

This feature is a minimum guaranteed rate of growth for a certain period of time for your beneficiary(s). Keeping again with our example, let's say you roll your $250,000 into the indexed annuity and you share with your advisor that one of your greatest concerns was to protect your spouse in the event of your death. The advisor tells you there is an enhanced death benefit that will grow at 3% guaranteed or the actual value of the account (whichever is greater).

You deposit the $250,000 and the stock market goes down for three straight years thus your index growth was 0% for three years. You passed away at age 63. What would your spouse have received? Not just the balance of the account of $250,000, but the enhanced death benefit would kick in and they would get $250,000 + 3% for three years = $273,181. This is also a great feature to offset the required minimum distribution (RMD) payments to leave more to your beneficiary(s) on a guaranteed basis should the indexes not perform as expected.

#4 — Return of premium provision:

This is a much lesser known feature as it isn't added to most annuities. But it can be a real asset for some investors. This means that even if you cancel your annuity during the annuity period while there is still a surrender charge, you can never get back less than your principal (premium) less withdrawals. To say it another way, the insurance company can't collect their penalty from your principal. Again, this isn't a very common feature, but it can be quite effective in certain circumstances. Let me show a *real world* example:

Let's say you have $100,000 sitting in a money market account at the bank or your brokerage earning two-tenths of a percent of interest or less. But you don't want to put the money into something where you are making a long-term commitment where they can penalize your principal if you need the money. Your advisor tells you there is a fixed annuity for five years at 3% compounded that has a 10% penalty-free withdrawal benefit and a return of premium provision. What in the world does that mean? Three different scenarios could happen:

A. You deposit the $100,000 into the annuity and have no emergency or need for money for five years and it grows at 3% compounded for the full five years. Your balance at the end of the five years would be $115,927 vs. $101,004 if you had left it in the money market earning 0.2% a year.

B. You deposit the $100,000 and find that during the five-year period, you do need some money but never more than 10% a year ($10,000 year one). You would continue to earn 3% a year on the balance and wouldn't forfeit any accumulated interest.

C. You deposit the $100,000 and one year later your spouse decides the two of you need to take a world cruise for six months and the cost is $99,999 and this money is the money to pay for it. The return of premium would give you the $100,000 with no loss of principal (you would forfeit the interest), but you would have the funds to pay for the cruise and have $1 left over for spending money.

So this feature often makes it possible for investors to have the potential to earn some interest without the fear of penalties eroding their principal should they need the funds unexpectedly.

IMPORTANT: When this feature is added to an annuity, the insurance company often pays substantially less interest or provides substantially less growth potential than a similar annuity without this provision.

Just like there are many variations of the four different types of annuities, there are many different variations of the features offered as either an included benefit or as an addition for a fee.

So what about all the negatives regarding annuities?

This brings us full circle to where we started. Let's address some of the statements from the beginning of the chapter that I heard early in my career:

#1 I've heard annuities are bad.

#2 My friend, family member or current stock broker told me never to buy annuities.

Annuities being bad is one of those half-truths. If an investor invests in a type of annuity or adds features to an annuity that they don't need or want, then I would agree. It is a bad annuity. For example, let's say you go to an advisor and you want an investment to protect your principal against market loss. You don't need any income in the future unless something dramatic changes. You would prefer stable growth vs. a rollercoaster ride, and it's really important to leave, at least what you started with, to your grandchildren (notice I didn't say children — can you tell I'm a grampa?).

Your advisor says, "I've got the perfect fit for you. I'm going to put you in ABC annuity company's variable annuity in the aggressive stock fund since you aren't going to take any money out. But we'll put the guaranteed withdrawal benefit that at age 65 you can take 5% out for life, to protect you from the market. After all, the death benefit protects your grandchild against loss."

You don't realize it, but your fees for the funds that were chosen, the withdrawal benefit, and the death benefit all equal 4.2% a year (illustrative only). You say it sounds good because it's safe. A year later, the stock market experiences a loss similar to 2008. You get your annual statement and your account is down about 40% between market loss and fees. You call to cash out in a panic and find out there is a 7% penalty to get out of the annuity. So now you are going to lose 47%.

So if that was my only knowledge or experience with annuities, I would think annuities are nitroglycerine that can blow me up financially.

Instead, you look at what that advisor is recommending and think to yourself, "Hmmm, it looks to me like I could lose money in the market, and why am I paying for a feature for income when I don't need income, and at best I'm going to only leave my grandchild what I started with." So you politely thank them for their time (maybe not even politely), and you call another advisor and give them the same information. This advisor comes back and recommends an indexed annuity where your principal is protected against market loss.

As part of the enhanced death benefit, it also includes a 5% bonus payment day one. It uses an index that, due to its volatility control, has never had a negative year and its worst 10-year average when back-tested would have been 6%. But if history doesn't repeat itself, the enhanced death benefit grows at a guaranteed 3% until you are 80 years old.

What I hope you can see from this lengthy example isn't the question of whether the annuity was good or bad, but was it a matter of being suitable for your goals. The names have been withheld to protect both the innocent investor and guilty advisor, but this scenario is relayed to me commonly as I meet new prospective clients. They simply were not advised to invest in the right type of annuity (maybe that advisor's company only offered variable annuities), and they were highlighting features that might sound good but weren't needed.

#3 The greedy insurance company is the only one that makes money with annuities.

I always find this one both concerning and amusing. Do you really want to put your money with an insurance company that isn't profitable? They need to be profitable to remain in business. However, it can't be all one-sided. The insurance company has to make their annuities attractive enough where it is a win for the client and a win for the insurance company. I will address this more in just a moment, but it's important to look at a variety of annuities to find the one that is a win for both.

#4 The fees are too high.

Again, this is really a half-truth. The scenario I laid out a moment ago where the variable annuity was not suitable for the needs and the fees were 4.2% (illustrative only), then it would be an absolutely true statement. But in the indexed annuity example where you possibly netted 6% average over time net of fees and the death benefit had the 3% guarantee net of fees and the total fee was 1.5% to 2% (illustrative only) compared to the 2.25% you were paying in your brokerage account for both billed and internal fees on an account that didn't protect your principal, and you received a 5% bonus payment day one — then maybe the fees weren't too high.

Bottom line is there is no good fee if it isn't achieving the goals you have, and there isn't a bad fee if it provides you with the growth and security desired.

#5 The returns are too low.

Once again, that could be true if you invested in an annuity that was designed for income and not growth. But if stable growth is your goal, there are annuities built for that growth. In particular, the newest generation of indexed annuities have developed what are called in the annuity world "uncapped" index strategies. It isn't uncommon for these annuities to come near, equal, or in some cases even outperform over a period of time the actual index they use in their interest calculation. If you protect yourself from the down

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years such as 2000–2002 or 2008, and you receive a fair percentage of the upside of the index in the growth years, then it's possible to provide a fair stable growth that provides you the potential to fulfill your retirement dreams and goals.

#6 and #7 You lose all your money when you die OR you lose control of your money while you are alive.

In most cases, these statements are inaccurate. The only form of annuity where you could lose the unused portions of your money is the first one we discussed – a single premium immediate annuity with a single lifetime straight payout. The other three types of annuities will pay the unused portions of both your principal and interest earned to your beneficiary(s) at death.

As far as losing control of your money, again, you do have access to the funds through penalty-free withdrawals on most annuities. Many also provide 100% penalty-free withdrawals if diagnosed with terminal illness, confined in a nursing home, or at death. At worst (I never want a client to experience this), you can still get your money at any time, less the penalty involved, and this is called a surrender charge.

Surrender charges apply for a specific period of time. In my career, I've seen them range from 0 years (no surrender) upwards of 20 years. Commonly they range from five to 12 years. The longer the surrender charge period, typically the higher the growth potential and/or richer the benefits. At the end of the surrender charge period, the annuity would be 100% liquid with no penalties for withdrawals or cashing out. It is also common that surrender charges decline over the years until they reach 0. I've found that many prospective annuity clients think the insurance company locks their money in a box and they can't get to it. That's just not the case.

#8 Annuities are too complicated.

OK – I actually agree with this one 100%. Because of all the options and features, they are incredibly complicated if you don't work with

them every day. However, just because something is complicated doesn't mean that it can't be incredibly beneficial.

I'm going to use a somber illustration to get my point across. I hesitate to do this, but I believe that finding the right strategies for your investment and retirement needs is a somber subject as well.

Let's say I go to my doctor tomorrow and he runs some tests and says I'm sorry to tell you that you have cancer. We believe if we catch it in time and treat it appropriately we can not only save your life, but you can have a normal and productive life. So I go home that evening and I get on the internet and google the type of cancer I have. I find a host of recommendations for treatment from healthy eating, to chemo, to radiation, to experimental treatments, to positive thinking, and everything in between.

Then I go to an oncologist and he/she starts using words I've never heard before and processes that just seem crazy (think about radiation). I think to myself this guy is too complicated so I go to another doctor. He relays similar information but actually has a different opinion how to treat the cancer. I go to a third doctor who says they don't think I even have cancer. The 30 pounds I've lost in a month is simply because of my normal exercise program. Then I call my friends and relatives to get their opinion. At the end of two weeks, I'm overwhelmed, confused, and frustrated. I decide this is too complicated to deal with, so I'm just going to go home and live my life as I always have. Three months later I'm dead.

What if before I gave up due to the many different opinions and procedures, I had found a doctor who took the time to talk about every symptom, scanned me up and down, provided me with actual results from other patients, had been treating my form of cancer for many years, and provided all the information he/she could until I was comfortable with the decision, even though I didn't understand everything perfectly. I decided to put my educated trust in that physician. Three months later

I'm taking my grandchildren for a beach vacation and celebrating life.

So how do I work through the complications on annuities and come to an educated decision whether they are right for me?

Unfortunately, we don't live in a perfect world and often there isn't a perfect answer to that question. But let me share a few things that both clients and prospective clients have shared with me.

#1 Find a financial advisor (maybe 2 or 3) who is an independent advisor and who has access to numerous insurance companies and isn't captive to a specific insurance company. You want an advisor who can look for the annuities that are a win-win for both you and the insurance company. You want to make sure they work with ALL forms of annuities and not just a selected type. Make sure that annuities make up a significant portion of their recommendations and not just occasionally when someone comes in for auto insurance and says I need an annuity.

#2 Make sure they are both insurance licensed for annuities and securities licensed so they have both the experience and training to compare and contrast different investment options that have the potential to meet your needs.

#3 Only work with a financial advisor who meets both the legal and practical guidelines as a fiduciary. This means they have both the legal and ethical responsibility to only recommend what is in your best interest and not theirs.

#4 Make sure they are willing to take the time to educate you and assist you with reaching a decision that you're comfortable with. If they say you need to do it today – walk away.

#5 Ask to see all the specifics in writing. This can come from a combination of insurance company– produced illustrations and brochures, and sample contracts for the annuity you are considering.

#6 Find a committed advisor. Find an advisor who is not only committed to finding you the recommendation that has the potential to meet your needs and goals but also who will spend time on a regular basis to update and review your plans and make any adjustments necessary. Let's face it — things change.

#7 Finally, make sure you have a comfort level both personally and professionally that gives you the confidence to build a long-term working relationship.

In Closing

If you have made it to the end of this chapter, CONGRATULATIONS! You are probably completely overwhelmed, but you now have a basis to move forward. I will be the first to tell you that all of your money should not be in annuities. Not all annuities are going to be a right fit for you. But just as that little nitroglycerine pill under the tongue can save your life, the right type of annuity in the right amounts with the right features has the potential to be a financial life saver.

I leave you with one final thought. It's a quote I heard early in my career that was life-changing both personally and professionally.

"It's not that people plan to fail; it's that they fail to plan!"

I wish you the best with your retirement and investment planning!

Chapter 11

What Do Confident Retirees Have in Common?

By Lyall W. Friedline

We all want confidence, right? The confidence of knowing we are in control of what needs to be done in our life. The confidence of an NBA superstar taking the game-winning shot when the game is on the line. The confidence of a famous prima donna in an opera. The confidence of Warren Buffett in closing a deal. But what about retirement?

Most retirees or soon-to-be retirees don't have the confidence that they will be able to retire with dignity and/or at the same lifestyle they've become accustomed to before retirement, because they don't have enough money saved. And for good reason. According to MarketWatch, the median retired couple has only $5,000 saved for retirement.[1] And even though saving for retirement is important to Americans, 4 in 10 have yet to get started.[2]

But it's more than just the money, it's the preparedness, the activity, the planning. How do you, as a retiree or soon-to-be retiree, gain the confidence you need to plow ahead in the uncharted waters of retirement? How can you be ready, and what traits do you need to retire with confidence? What are some common denominators of those who have made retirement work for them?

What are common traits?

Confidence and positivity

If we look to an outside source for clues to what matters in retirement, BlackRock investment firm said in their 2017 annual Global Investor Pulse survey that positivity and confidence matter. Half of Americans

have a positive outlook for their financial future, and retirement readiness is a significant area of investor focus.[3]

For many Americans, the first step to improving financial confidence is to take thoughtful action to better invest. This means building better knowledge around retirement and college savings and exploring different ways to save, and knowing that it's never too late to put money aside. It's better to start sooner rather than later. Retirement success depends more and more on people making good decisions – saving more, starting earlier, picking appropriate investments, and so on.[4]

Chip Castille, BlackRock's chief retirement strategist, said in the 2013 version of the same survey, "When workers feel empowered, confident and positive about the savings process, they will actually save more for retirement than workers who don't feel that way." Unfortunately, only 25% of Americans say they are confident about achieving a secure retirement.[5]

Vision and diligence

You might not think about this one, but envisioning yourself enjoying retirement helps with feeling confident. Survey data showed that 39% of respondents who know what their retirement will look like qualified as "highly effective" savers. Those who did not envision were in for an uphill climb and less successful at saving. Castille also cited that being able to effectively chart one's progress toward their savings goal also offered invaluable support for saving. Actually making the effort to save and being persistent about it made one feel more confident.

Optimism and openness

It's hard to remain optimistic about saving for retirement when all your money seems to go toward bills, rent, a mortgage, and even unplanned expenses, but Castille says that feeling hopeful about pursuing a comfortable retirement is a common attitude with aggressive savers. Even if your neighbor makes more money than you do, you can be a power saver by believing that you will have more money in retirement, which will help you save for decades.

And being open to receiving guidance from financial professionals will only help you in the long-run. BlackRock's survey showed that top retirement savers were big on asking for objective guidance and being optimistic about it. They are optimistic that they will, in fact, be successful in retirement savings. And finally, they seek advice and listen to objective guidance when it comes to where their money and investments will be, whether it is from an accountant, a lawyer, an investment advisor, or just experts in the field.

Biggest fear/concern

Confidence is vitally important when you consider the number one fear of all retirees. Do you care to take a guess what that fear might be?

The number one fear, according to the *Journal of Accountancy*, is running out of money. In fact, 41% of CPA financial planners say that is their clients' top concern about retirement, including those clients who have a high net worth.[6]

In a study done by the Employee Benefits Research Institute of baby boomers and Generation X, 38% of Americans in the lowest-income quartile of those generations will likely run out of money during their first year of retirement. That's right, the first year! By year 10, 64% of them will be penniless and 11% of those in the next-lowest quartile will be in the same predicament.[7]

While this fear is certainly understandable for those that haven't saved much, even those that have accumulated a sizeable nest egg have concerns. The primary reason is that retirement presents a lot of unknowns, including extended life span, health issues and increasing costs, inflation, taxes, along with an unpredictable stock market and economy.

So the question remains, how do retirees gain confidence?

Communication Is important

I can't say enough about how communication is important in any relationship, but not only is it important between a financial advisor and the client, but also between clients and the other professionals who help them, which may include attorneys, accountants, insurance professionals, etc. Furthermore, an open line of communication between these professionals is also important so they are able to work together as a team for the betterment of the client. We have seen in the past clients who struggle financially because they did not understand the entire process of financial planning, but also because the professionals they hired to assist them were not talking to each other.

For example, a financial planner can help with overall holistic financial planning and management of investment issues. A client might have someone else help them with taxes and bookkeeping, and they might have an attorney to help with legal issues. Since all of these roles involve finances, direct communication between everyone can be valuable to the client's overall financial picture. Each professional has a different knowledgebase skillset; working as a team can often lead to a more comprehensive and objective plan for the client.

One example of how important communication is features the mother of one of our clients. She was 92 years old, and her advisor was trying to earn portfolio returns for her. However, he seemed to forget her age and that her only income was Social Security. As a result of the dividends and capital gains from the investments chosen by her financial advisor, the client's taxable income was much higher than anticipated and her Social Security became more taxable. (Social Security can be up to 85% taxable, and the amount is predicated on income.[8]) At tax time each year, the accountant was telling this woman that she earned too much and that she would have to make a big tax payment. Since she did not have the cash available, she had to make a withdrawal from her IRA to pay her taxes, which triggered more income and made her Social Security taxable again the following year.

What would have been more efficient here and could have served the client better? The old cliché about the right hand not knowing what the left hand is doing applies here. Clients cannot be appropriately helped if the accountant and financial advisor are not on the same page. In this example, her investment professional was likely not providing the kind of investment guidance required for a 92-year-old widow. However, the bigger disservice to the client was that the tax advisor never spoke to the investment advisor. "Tax advisor" is probably a misnomer here; more descriptively, this person was a tax preparer. The tax issues could have been solved with a simple phone call to the investment professional to discuss a shift in allocation away from dividend and short-term capital gain producing investments. Sounds simple, right? But all over the United States, retirees are getting help from legal, tax, insurance, investment, and financial professionals — yet, it is quite common that these professionals are not talking to each other about their mutual client's situation.

Essential habits to follow

Just like Stephen Covey's "The 7 Habits of Highly Effective People," there are also "The 7 Essential Habits of Highly Confident Retirees," as coined by BlackRock.[9] What did confident retirees do during their working careers to build their retirement savings? Those retirees had seven essential habits, and their overall secret to a successful retirement was controlling what you can, specifically your savings habits.

1. **Start saving early.** If it's too late, then start now. Time is your best friend when it comes to saving, and time smooths out the investing ups and downs. Is there a 401(k), 403(b), or 457 plan you can contribute to? Many employers match what you put in, up to 5% in some cases. That is "free" money. Those who are offered the choice of contributing to a retirement plan and choose not to may suffer later in life. Don't look back and regret missing an opportunity to save.
2. **Max out your savings rate.** Save as much as the IRS allows. If you can't save that much right now, then figure out what you can save. Don't go with just the minimum. Be careful trusting retirement calculators. When you use retirement calculators, you'll always use a specific set of assumptions. It is pretty rare for those assumptions to play out exactly as you enter them.
3. **Increase savings when you can.** If you get a raise, then save more. If you get a bonus, great, then don't spend it. The more you save now, the more flexibility and choice you will have later. We have a client who has a hard time saving, and she works for a medical center and earns a pretty good salary. My recommendation was to start contributing the same that the company will match. Her work matched 4% in a 403(b), so that was a 100% return on her investment right away. From her $100,000 annual salary she started contributing $4,000 a year and her company matched $4,000. The amount on her net paycheck was reduced as a result of this contribution and was less than $50 less per check. Not too much to pay for $8,000 a year in savings.

The next step was to reconsider what she did with salary raises, as she would often receive an annual raise. The first time she received a raise, her contribution was moved from 4% to 5%. She didn't miss that extra money. In fact, her paychecks were higher because of the raise, but so were her retirement contributions. Do you generally get a pay raise each year? Try increasing your retirement plan by 1% with each pay raise. Before long you will be close to the maximum.

There have been clients who have reached their maximum over the years and many of them report satisfaction with their progress after reaching that point. For 2018, if you are 50 years and older and have a 401(k), you are able to contribute a maximum of $18,500 a year with an additional $6,000 catch-up contribution allowed. These limits apply to certain other types of retirement plans as well, such as 403(b) and 457(b) plans.[10] Reaching your maximum contribution level is satisfying for many savers. It's the feeling of "Well, I am contributing as much as I legally can." That's a good feeling for the future retiree and it helps lead to confidence in retirement.

4. **Pay attention to what's going on.** Read your statements and know what's going on with your money. Go to company websites and educate yourself. Rely on others. When my dad turned 55, he was forced to stop controlling airplanes at the Federal Aviation Administration. The FAA has a policy that once you turn 55, you can't keep controlling the airplanes. His Thrift Savings Plan had $100,000 in it and was invested in high-risk stocks and mutual funds in high-risk areas. He wanted me to take a look and see if he was on the right track. He was not on track.

   He should not have been invested that aggressively, especially when he did not have time to make up potential losses. This was in early 2007, right before the market collapsed. It was a good thing we had reduced his investment risk.

Another commonly used investment strategy is dollar cost averaging. The general concept is simple:

- Continue contributing to your retirement plan with systematic contributions. Don't let market fluctuations alter your contribution plan.
- If the stock market goes down, you are actually buying more shares of stock/mutual funds than if the price were higher. Think of it as though you are buying it "on sale."
- If the stock market goes up, your overall portfolio should increase, but the actual number of shares you are buying might be less (as compared to the example a moment ago).
- The general premise is that the price you pay per share averages out over time. It is a good way to help you mentally accept any negative downturns.

With that said, if you stop contributing, the investment concept no longer applies. As you get closer to retirement, it may also be smart to reduce your overall risk as you wouldn't have as much time to recoup potential losses.

5. **Review your strategy every year.** Things change. You might get married and have kids, start a new job or change jobs. Your 401(k) plan will change and add new investment choices over time. We recommend clients meet with us at least twice a year and check in with us on these topics.

6. **Act your age.** When you're young, you can take risks in your investments. Tone it down as you get older, and hang on to what you have. Find the right risk level for you and your situation. While your age certainly plays a large part in how you will invest, there is a lot more to risk tolerance and the investment decision than just your age.

7. **Estimate your retirement income.** When you're close to retirement, look at everything, i.e., Social Security, your 401(k), IRA/Roth IRA, personal savings, spouse income, and begin to analyze projections for your retirement income. These projections should include looking at numerous "what if" factors, and should be done regularly before and during retirement to ensure you are staying on track.

In general, you are not going to spend dramatically more or less upon retirement. There are some costs that will go down (commuting expenses like gas, auto, etc., as well as unreimbursed business expenses). But likewise, many expenses will increase upon retirement. Health care expenses tend to increase as you grow older and many retirees' travel expenses will increase as well.

We will often use an old financial planning rule of thumb by telling our clients that 80% of your salary should be replaced in retirement. So if you are earning $100,000 per year in salary, $80,000 of that income should be replaced from areas like pension, 401(k) distributions and Social Security. The closer your retirement income can be to what you made before retirement, the more likely you are to keep your spending in line.

Steady income

According to *Forbes* magazine, confidence is also often correlated to having a steady income source. In the past, 80% of retirement money came from reliable sources like traditional defined pension benefits, Social Security and immediate annuities. But due to disappearing pension plans and further shortfalls in the Social Security program, those who are in the workforce believe that only 30% of their income after retirement will come from these steady sources.[12]

Why the shift? As we all should be familiar with now, defined benefit pensions have decreased dramatically in the United States. In 1990, 42% of private industry workers received a defined pension benefit. By the year 2017, that number had fallen by almost half, to about 22%.[13] Why the declines in defined benefit pension plans?

Many private companies are shifting the responsibility to their employees and offering defined contribution plans like 401(k)s. This is a safer route for corporations as they no longer have to worry about the risks associated with defined benefit pension plans, such as investment and longevity risks.

Summary

There is no greater joy for me than to see a client retire with confidence. It truly is one of the biggest rewards I receive as a financial professional. When I look at the clients I have helped to retire, what they all share in common is:

- They understand the importance of planning.
- They understand the importance of open and ongoing communication.
- They set realistic goals for themselves and their money, and they review those goals with me regularly.
- They recognize that remaining flexible is an important part of a successful retirement plan.

- They don't dwell on the things that are out of their control.
- They put their focus and attention on the things that are within their control.

If you are able to focus on those simple traits, I suspect you'll be one step closer to feeling financially empowered.

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Clayton F. Shum, CFP

Clayton F. Shum at EH Shum Financial Solutions is an experienced professional who brings several years of management and production in advisory and information and research areas, with a primary focus on financial services. As a Certified Financial Planner™ and Registered Financial Consultant with more than 15 years of experience, he is responsible for wealth preservation planning and providing guidance for his personal practice and the development of growth of executive networks in insurance and financial services. Prior to joining EH Shum Financial Solutions, Clayton worked with established organizations at US Bank, Northwestern Mutual, and New York Life.

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Clayton obtained his bachelor's degree from the University of San Francisco and master's in financial planning from Golden Gate University. He began his practice in financial services in 2001, with a focus on protection planning. Clayton's objective was (and still is) to remove the stress of the money management process and help clients to bring order and increased confidence to their financial situations.

In his free time, Clayton enjoys his family, badminton, and is a member of an adult basketball league.

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Yong Wang, CFP, CHFC, CLU

Yong Wang is the founder and owner of Advanced Financial Strategies, LLC. He is best known for his work with pre- and post-retirees, coaching them on important financial concerns and helping to build a financial plan focusing on the accumulation, preservation and distribution of their wealth.

Since 1997, Yong has been assisting those in or near retirement with their wealth protection planning. He specializes in retirement plan development with an emphasis on tax efficiency and the potential for meeting lifetime income needs. His firm emphasizes the "big picture," focusing on the correlations between wealth management and long-term tax planning.

Yong obtained his PhD from the Medical College of Ohio in 1996. He also has many professional certifications including the CERTIFIED FINANCIAL PLANNER™ (CFP®) designation, Chartered Financial Consultant® (ChFC®) and Chartered Life Underwriter® (CLU®).

He is committed to staying current on important issues and changes in the financial industry and believes that education is one of the keys. Yong is a resident of Voorhees, New Jersey, and is actively involved in volunteering in the local community. He's married to his hometown sweetheart, Min, and enjoys spending time with his son Andrew.

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Cheri Johnson

Cheri Johnson is the Senior Managing Director at Strategic Wealth Advisors LLC. For 20 years, she has been confidently helping manage her clients' financial futures through a variety of challenging market conditions.

Following 10 years of client asset management at a major Wall Street firm, she created Cheri Johnson, Strategic Wealth Advisors LLC, in order to provide more targeted and meaningful custom solutions to individuals and small-business owners using her personalized planning analysis.

Known for her approachable, sincere manner, Cheri works diligently on behalf of her clients and considers herself to be a partner in helping them work toward their goals. She is known for her experience in retirement planning and portfolio risk management. Cheri advises clients that sound financial planning is the first step of a successful financial future.

Cheri is very active in serving her community including serving as past-president Gig Harbor Midday Rotary; 10 years as Director Harbor History Museum; Director and past-president Community in Schools; Founding Board Alliance of Women-Owned Businesses; 12 years as Tournament Director of the charity tournament, Golferitaville; member of the Economic Vitality Committee, Downtown Waterfront Association; and member of Gig Harbor Chamber of Commerce.

Cheri lives with her husband near Gig Harbor, WA, enjoys volunteering, traveling, kayaking, music, and spending time with her four children and young grandchildren.

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Mark Hansen, ChFC, CFP

Mark Hansen is the president of Hansen & Associates Financial Group, Inc. an independent registered investment advisory firm located in Sacramento, California. His firm specializes in comprehensive financial planning and tactical asset management. Mark focuses on assisting his clients in attaining their goals and objectives by applying practical planning strategies.

Mark started his financial services career in 1989 and later established his independent RIA firm in 2010. Over the years, he's built an effective team of advisors and developed proprietary tactical portfolio strategies that helps clients work toward achieving their wealth management goals in a risk-managed environment.

He holds the CERTIFIED FINANCIAL PLANNER™ (CFP®) and Chartered Financial Consultant® (ChFC®) designations and is a member of the Financial Planning Association. Often a financial speaker at several corporate events in the greater Sacramento area, Mark also conducts many seminars on a wide range of financial topics from financial planning, preparing for retirement, managing risk and how to preserve your wealth.

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Artie Bernaducci

Artie Bernaducci is the founder of Retirement Income Advisors, LLC, and has been working in his favorite profession since 1991. Throughout his career, his priority has been to help clients understand financial gobbledygook and make it simple for them to plan their retirement.

After graduating from Ball State University in Indiana with a B.S. degree in soil science, he was unable to find work in his major area of study, so he went into the masonry business with his family and ran his own successful company for more than a decade. The masonry business also has its own gobbledygook, and even through a learning curve then, Artie worked hard to simplify the language in day-to-day business. With his transition to the financial world, it was a given that he apply this same approach and ensure clients could understand the industry "mumbo jumbo" in order to move forward with planning their retirement.

Artie is passionate about helping people and enjoys connecting with his clients. His focus includes retirement and financial income planning, and especially assisting baby boomers who are approaching or are already in retirement. His aim is to educate clients and support them with the retirement knowledge they need to help them through their life stages.

He has co-authored with his colleague, Denny Frasiolas, the book, *Strategies to Create Lifetime Income for Baby Boomers*. He also speaks at seminars on retirement and financial income planning.

Artie is married to his best friend Monica, has a grown daughter, Rosaleen and a son, Louis Kolydas. Artie's main interests are his family, bodybuilding, yoga and meditation, marketing, veganism, Oriental Medicine and "paying it forward."

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Denny Frasiolas

Denny Frasiolas is managing partner and chief investment officer at Retirement Income Advisors, LLC, and has been a financial professional since 2001. He focuses on educating pre-retirees, with an emphasis on baby boomers, about wealth distribution planning and IRA/401(k) investment services. He's also an author, speaker, business consultant and entrepreneur.

Denny knew he wanted a career in financial planning after he helped a family member who unexpectedly lost a loved one. He created a financial plan that worked to their benefit and helped them save more toward their nest egg.

He holds a B.S. degree in finance, and a B.S. degree in operations management from Indiana University's Kelley School of Business. He also received his master's degree in mathematics education from The College of New Jersey. In addition, he has held several highly regarded positions in his professional career, including positions at Bank of America (formerly Fleet Bank) as a financial analyst and MetLife as an investment advisor representative. Denny has co-authored with his colleague, Artie Bernaducci, the book, *Strategies to Create Lifetime Income for Baby Boomers.*

He is devoted to improving people's financial literacy and has spoken to the general public about retirement and financial income planning, Social Security, Medicare, and identify theft. He's also been a guest at several corporations speaking to attorneys, certified public accountants, financial advisors and insurance agents.

Denny is a past chapter president of the 501(c)(3) nonprofit public benefit corporation, The Society for Financial Awareness (SOFA).

At the center of his life is his beautiful wife, Erin, and their three wonderful children, Parker, Mason, and Charlotte.

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Daniel S. Miller, CFP, is the president of Miller Financial Group, Inc., and serves clients throughout the country as they transition toward retirement and work toward their financial goals.

He works with business owners and agricultural professionals and has developed his own financial estate planning seminar for the agricultural market. He also provides federal and state benefits seminars for many different employee groups throughout the Midwest, including the FAA, the USDA, the Federal Court System, the Dept. of Reclamation, the ATF, the National Parks Service, at schools and hospitals, and for state workers.

He graduated from the Missouri School of Banking and earned a bachelor's degree from Kansas State University in animal science with a business minor. He's obtained his Securities registrations for Series 6, 7, 63, 65 and is licensed in Life, Health & Disability Insurance. He is also a CERTIFIED FINANCIAL PLANNER™. You can tune in each Monday morning to hear Dan co-hosting the radio show, Let's Talk Money!

Dan published his first book, *Retirement Built to Last: Planning for When the Paychecks Stop.* He has been featured in *The Wall Street Journal, Financial Advisor IQ, Successful Farming* at Agriculture.com, the *Maryville Daily Forum, West Des Moines Patch* and Bankrate. He is also a contributing writer to The Hill and Investopedia. Dan also publishes a monthly blog on financial topics titled, *"Better Financial Living."*

He and his wife, Denise, have two grown children, enjoy spending time with their family and friends and going to sporting events. Dan also enjoys staying connected with his family's registered Angus cattle operation and helping out when he can.

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Damian Rothermel is a CERTIFIED FINANCIAL PLANNER™ (CFP®) in Portland, Oregon. He runs Rothermel Financial Services, LLC, as an independent financial planning firm and has been helping individuals and families with their financial planning since 1998.

He provides various techniques, ideas, products and strategies to develop customized portfolios for his clients' personal situation. He emphasizes the core tenets of financial planning and helps educate his clients so they can be confident in their decisions. He is passionate about helping families work toward their financial goals and promises his clients he will be there for them.

He attended the University of Dayton (UD) and graduated with a degree in accounting in 1998. He and his wife Julie met at UD and moved west together in 1999 and have been married since 2003. His son was born in 2010 and his daughter in 2013.

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Eddy Gifford, CFP® is the founder and owner of Gifford Planning Strategies, a comprehensive, independent planning firm focused on meeting and exceeding client expectations regarding their overall financial plan. His firm specializes in retirement plan development with an emphasis on tax efficiency and the potential for meeting lifetime income needs.

A former All-American collegiate athlete, Eddy graduated from California State University, Fresno, with a double major in mathematics and business finance. He started his financial planning career with New York Life. After two years working as a representative for New York Life, Eddy knew it was time to pursue his ultimate goal of owning his own independent financial practice.

Financial planning has given Eddy the opportunity to be a one-on-one coach and have a positive impact on peoples' lives, and he enjoys assisting those in or near retirement with their wealth-protection planning.

Eddy holds the CERTIFIED FINANCIAL PLANNER™ (CFP®) designation and is committed to staying current on important issues and opportunities in the financial industry. He has been a Las Vegas resident for more than 20 years and currently resides there with his wife, Kristin.

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David L. Greene is the founder and president of Beacon Financial Group. For over two decades, he has been helping individuals and businesses implement strategies designed to preserve and grow their assets and lower their tax liability. Dave also helps numerous baby boomers with the distribution phase of their financial lives.

Dave is a well-known financial planner with clients around the country. Seniors, business owners and corporate executives have benefited from using his advice. Even professional sports figures have turned to Dave for investment and tax advice to better protect their retirement dollars. In addition to distribution planning, his specialties include pre- and post-retirement planning, money management, investment advisory, wealth accumulation, tax-reduction strategies, and financial education speaking engagements.

He has his Series 6, 7, 63, and 65 security licenses, which enable him to operate as an investment advisor representative and provide investment advice and guidance on retirement planning, portfolio management strategies, reducing taxes, investment risk, and fiduciary obligations. He is also licensed in Life and Health Insurance. Dave serves as president of the Southern Nevada chapter of The Society for Financial Awareness (SOFA). He also frequently gives educational financial seminars, and has penned articles in publications such as *Trends and Traditions*, *Modern Maturity* and *New Jersey Realtor*.

Having lived in Schenectady, New York, most of his life, he moved to Nevada in 2003 and settled in Henderson. He enjoys hiking, golfing and spending time with his family.

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Brian C. Stivers

Brian C. Stivers is the president and CEO of Stivers Financial Services and has been in the financial industry since 1992. His firm focuses on helping pre-retirees and retirees create a lifetime of income as they enter retirement. He started his company in 1997, because he fell in love with the concept of helping others pursue their financial goals and wanted to be a part of educating them toward a more confident retirement. He's especially keen on ensuring clients and prospective clients overcome the word "annuity." Great satisfaction comes when being able to take difficult and confusing financial topics and turning them into a simple language that anyone can understand and benefit from.

Brian is dedicated to attending industry events that help him meet other like-minded advisors who also want to work in the best interest of clients. He follows the Department of Labor (DOL) fiduciary standard when working with clients, which means he will act in only the best interest of his clients and ensure that all retirement advice given is suitable to the client's objectives, needs and circumstances. He also believes in the old adage that it's not that people plan to fail, it's that they fail to plan. He'll help you figure out what's the best plan for you and what suits you best.

He attended Liberty University, and today he teaches bible studies and loves to travel the world. He has been married to his wife, Christa, since 1983 and they have four grown children and several grandchildren (more added annually!).

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Lyall W. Friedline

Lyall W. Friedline is a registered investment advisor representative and stockbroker. He is the founder and creator of Friedline Financial, an investment advising firm in Lee's Summit, MO, a suburb of Kansas City. In the 10 years since founding Friedline Financial in 2007, he has grown the company into one of the fastest growing advising firms in the Kansas City market with over 400 clients and over $50 million in assets under management. His firm focuses on financial planning in areas including retirement, reducing taxes, safely growing assets needed for retirement income, investments, and creating a lasting legacy for heirs.

When Lyall began working in the financial field, he realized that the more people he helped, the more rewarded he felt. His main goal is helping to grow and protect his clients' assets while in their working years, and creating and implementing strategies designed to help provide lasting income for them in retirement.

Throughout the year, Lyall educates the public on Social Security at seminars. And because client loyalty is important to him, he holds numerous client appreciation and referral events. He has been featured on Sports Radio 1510 AM on the Les Norman show, "Breaking the Norm," and has been quoted in *U.S. News & World Report*, Yahoo Finance, and *Financial Advisor* magazine. He is also a contributor to Advisor Insights on Investopedia.

Lyall has obtained his FINRA securities licenses Series 6, 7, 63, 65, and Life & Health Insurance licenses in Missouri, Kansas, Iowa, Illinois, Oklahoma. He attended the Abts Institute for Estate Planning. A native of the Kansas City area, Lyall and his wife, Carrie, reside in Lee's Summit with their two daughters. He enjoys fishing, hunting, and Royals baseball.

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