

THE

RETIREMENT

ANSWER

By Stephen Haidt, CFP®



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The Retirement Answer

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INTRODUCTION

AS A SUCCESSFUL INVESTOR AND PROVIDER for your family, you've worked hard to build your wealth. You understand that earning money—and keeping it—is hard work. You also understand that your finances aren't just about money. They're about reaching the goals and dreams that you and your family hold dear.

Like many successful investors, you're probably working with one or more financial advisors. And like many investors, you're probably less than satisfied with your results—both in terms of the returns you're generating and the service you're receiving.

I'm **Stephen Haidt, CEO of Retirement Advisors, Inc.** I've been in the financial services industry for three decades.

This book is based on my years of work with successful retirees. It's designed to help successful investors like you cut through the misinformation that's so often found in the financial advisory industry (and the financial media) so you can make smart decisions about whom you work with to achieve your most important financial and life goals.

My primary reason for writing this book is to help people avoid many of the mistakes that I have seen over the years. Most retirees tend to focus strictly on the investment management aspect of retirement, while ignoring the financial planning issues that can sink a retirement. The retirement stakes are quite high, and the penalty for failure is running out of money during your lifetime.

Why smart investors make dangerous mistakes with their life savings

All too often, successful executives, retirees and entrepreneurs are totally unprepared for their financial success—or the responsibilities that come with managing complex investments and financial needs.

While researching their landmark 2005 book *Cultivating the Middle Class Millionaire*, authors Russ Alan Prince and David A. Geraciotti interviewed 1,400 affluent individuals and over 500 financial advisors about their wealth management strategies. As you can imagine, this research has given me new insights into how today's successful investors manage their wealth. It's helped me understand the gap between what clients need and what their financial advisors think their clients want. Unfortunately, all too many investors are being poorly served by their financial advisors.

And, in today's era of longer life expectancy, rising health costs, volatile markets, extended low interest rates for savers and geopolitical turmoil across the globe, it's never been tougher to plan one's financial future.

In a 2008 *Wealth Report* survey, four out of five successful investors said they would consider switching their primary financial advisor. And not much has changed since then despite a significantly better climate for investors. Even more disturbing, almost nine out of 10 respondents said they wouldn't recommend their current financial advisor to anyone they knew.

Working with the wrong financial advisor can be extremely costly to your long-term success. But finding the right financial advisor isn't easy. After all, there are nearly half a million licensed advisors in the United States alone, according to Meridian IQ. Picking one who truly understands your needs and who has the skills to help you reach your goals is like searching for a needle in a haystack.

A 2014 Vanguard-Spectrem study asked 3,000 investors with net worths ranging from \$100,000 to \$25 million to rank the main causes for switching financial advisors. The top three traits they were looking for in a new advisor—each cited by 90 percent of respondents—were having an advisor who is ...

1. Honest and trustworthy
2. Provides transparency and keeps the client informed
3. Has a good investment track record

Notice that only one of the top three reasons had to do with investment performance.

That's why I created this book. I have seen too many investors make costly mistakes that put their financial lives in jeopardy by choosing the wrong financial advisor. Don't let these mistakes happen to you and your family.

In fact, research has shown that there are five key concerns of the affluent. We'll discuss these in more detail in **Chapter 3**, but chances are many of these concerns apply to you and your family.

- 1. Preserving wealth**
- 2. Taxes**
- 3. Taking care of your heirs**
- 4. Protecting your assets from being unjustly taken**
- 5. Making charitable gifts**

Has your advisor discussed these Big 5 concerns with you recently? Probably not. But as a shrewd investor, you should expect more from your financial advisor. You should expect him or her to have a wide-ranging, long-term wealth management plan. That's the best way to protect, preserve and grow the wealth you've worked so hard to build. Use the pages that follow as a blueprint for a worry-free retirement!

But first, I'd like to tell you why sharing this information is so important to me. I've experienced firsthand the damage that a lack of clear financial planning can cause.

Chapter One

MY PERSONAL STORY

WHY I AM SO PASSIONATE ABOUT MY WEALTH MANAGEMENT SERVICES

My father was a civil engineer who had his own successful practice. He was a very smart man, but like many bright engineers, he was not extremely savvy financially. When my father died unexpectedly, my brothers and I had to liquidate his business assets and try to collect the money owed to him. My mother was so worried about her financial future that she could barely grieve his death. Even now, I can remember the fear I saw in her eyes.

It took several months for us to sort everything out and determine that she would be OK financially. For the remainder of her life, she was very insecure about finances. So I knew right then that I would become the best advisor possible. I didn't want any of my clients to experience the fear that I saw in my mother's eyes after my dad passed away. Thankfully, they haven't.

Immediately, I started working to become a Certified Financial Planner (CFP®) and went on to open my own fiduciary, fee-only, financial planning practice.

As some of you may know, a **fiduciary** is an advisor who always works in the best interests of his or her clients. The fiduciary manages the assets for the benefit of the other person rather than for his or her own profit.

"Fee-only" financial planners are registered investment advisors who have a fiduciary responsibility to act in their clients' best interest. Unlike "fee-based" advisors, they do not accept any fees or compensation based on product sales. Fee-only advisors have fewer inherent

conflicts of interest, and they generally provide more comprehensive advice.

Then, while searching for the best possible way to invest my clients' money (and my own), I discovered [Dimensional Fund Advisors \(www.dfaus.com\)](http://www.dfaus.com). Dimensional's funds are only available to institutional investors, such as pension plans, and to the clients of approved investment advisory firms like ours. By having access to Dimensional's funds, I have been able to build low-cost, diversified portfolios for my clients. We have enjoyed the excellent performance of Dimensional Funds for over 15 years. For more than 30 years, I have dedicated my life to helping people have a worry-free retirement.

Chapter 2

SHOULD I DO IT MYSELF?

MOST PEOPLE ONLY GET ONE CHANCE to transition into retirement. There are no “do-overs.” Usually, when people make critical errors in their retirement planning, the impact of their mistakes is not felt until years later. By then, there is usually no easy, painless way to repair the damage.

The retirement planning landscape is in a state of constant flux. Distribution rules and tax laws change all the time.

A successful retirement consists of two very distinct components:

1. Financial planning
2. Investment management

Most do-it-yourselfers tend to focus their efforts overwhelmingly on investing. They typically ignore the risks of failing to plan one's finances properly. There are many pieces to the retirement puzzle. Most people are not experts at investing—let alone taxes, wealth protection and estate planning.

Our natural instincts do not serve us well when it comes to investing. And research confirms this.

Dalbar, Inc., has been studying investor behavior since 1994. The firm's most recent study spans a 20-year period ending December 31, 2013. Some of Dalbar's key findings may surprise you.

The average stock fund investor earned 5.02 percent annually vs. 9.22 percent for the S&P 500 Index.

The average bond fund investor earned only 0.71 percent annu-

ally compared with the Barclays Aggregate Bond Index return of 5.74 percent.

Why are investor returns so low?

- 1. Market timing failure** – The greatest losses occur after a market decline. Investors tend to sell after experiencing a paper loss and start investing again only after the markets have recovered their value. The devastating result of this behavior is that the investor participates fully in the downside while missing out on most, if not all, of the upside when markets recover. This is a classic case of letting our emotions get in our way, resulting in the cardinal financial sin of “buying high and selling low.”
- 2. The media** encourage investors to move in and out of the market and to switch investments frequently. This frequent shifting can also result in higher expenses and taxes.
- 3. Investor expectations** are often set too high. Remember, everyone cannot be “above average.”
- 4. Loss aversion** occurs when investors expect to find high returns with low risk. The desire for high returns should be balanced with the desire for capital preservation.

Vanguard has conducted a study in an effort to quantify the value that an advisor brings to the average client. They call it “Vanguard Advisor’s Alpha.™” To come up with this metric, Vanguard combined the value of portfolio construction, wealth management and behavioral coaching.

The value of these services includes:

STRATEGY	POTENTIAL VALUE ADDED
Portfolio Construction	
Suitable asset allocation	> 0%
Cost-effective implementation	0.45%
Asset location	0% to 0.75%
Total return vs. income investing	> 0%
Wealth management	0.35%
Spending strategy (withdrawal order)	0% to 0.75%
Behavioral coaching	1.50%
TOTAL POTENTIAL VALUE ADDED	About 3%

Source: Vanguard

As you can see, a good advisor can add about 3 percent per year to your investment returns.

As most of you will agree, earning money (and keeping it) is hard work. It's human nature to question why you would spend additional money to hire someone to keep the money you've rightfully earned.

As our recent survey revealed, three in four investors managed their own assets before retirement. No surprise there, but more than two-thirds said their employer gave them no help in evaluating their retirement options, and 60 percent said they wish they had received help with these extremely important decisions. Here are some of the areas that your fellow retirees told us they wish they had received more help with:

- *"Financial planning and personal investment advice."*
- *"A good source for retirement planning early in the work time span."*
- *"72t SEPP plans."*
- *"Information should have been provided much earlier in working career while effective changes could be made."*
- *"In-depth Social Security and tax strategies."*
- *"Medical insurance advice."*

- *“Retirement seminars along with regular retirement counselors when within five years of planned retirement.”*
- *“Retirement planning should begin with one’s first full-time job, usually in a person’s 20s. As a liberal arts major, I mostly self-educated myself, but I could have really used investment advice, particularly investing in the market.”*
- *“Financial planning beyond just standard IRA. Roth IRA benefits/trade-offs.”*
- *“Retirement planning at a younger age.”*
- *“Setting realistic goals for preserving my portfolio to last long enough. I probably should have asked.”*

Our research reveals that nearly two-thirds of Retirement Advisors, Inc., clients (65.5%) did not have an advisor before they retired. Of those, every single one (100%) said they believed a trusted advisor would have been helpful during that time.

Here is a sampling of things that our clients told us are keeping them up at night:

- *“Insufficient accumulation of assets.”*
- *“That I wouldn’t get to retire.” “Will I be able to retire, and when?”*
- *“Would I have sufficient income to last throughout retirement?”*
- *“Running out of money before I die.” “Will I run out of money before I die?”*
- *“Reduction in IRA due to stock market fluctuations.”*
- *“Have we saved enough?”*

Anything sound familiar?

Let’s get started on making sure that you and your family have the guidance you deserve.

Key Takeaways

- A successful retirement consists of two very distinct components: (1) financial planning and (2) investment management.
- Most do-it-yourselfers focus overwhelmingly on investing. They typically overlook taxes, wealth protection, estate planning and other key pieces of the retirement puzzle.
- What's more, research shows do-it-yourselfers significantly underperform the market due to market timing failure, media influence, unrealistic expectations and loss aversion.
- Nearly 70 percent of our clients receive no help from their employers when it comes to evaluating retirement options—the majority wish they did.

Chapter 3

HOW DO I FIND THE RIGHT ADVISOR?

WHAT TYPE OF ADVISOR SHOULD I CONSIDER?

If you decide to get help from an advisor, you can choose between a **retail stockbroker** or a **Registered Investment Advisor (RIA)**.

Retail brokers are paid by their firms to sell you investment products. They used to be called stockbrokers, but now they go by euphemisms such as “financial advisors” and “wealth managers.” Just remember that brokers are compensated by their firms based on how much money they make for the firm, not for you! A broker does not have to disclose conflicts of interest. The broker must sell investments that are considered “suitable” for the client.

RIAs are independent and are legally required to act as fiduciaries to their clients. This means that the clients’ interests must always be put first. RIAs are paid a fee by their clients and do not receive any compensation from any other source. Typically, they use a third-party custodian in order to safeguard their clients’ investment assets. To locate a fee-only RIA near you, check with the [National Association of Personal Financial Advisors: www.napfa.org](http://www.napfa.org).

To check the background of a stockbroker or an RIA, go to the FINRA website at www.finra.org and click on Broker Check.

Because good financial planning and avoiding big mistakes are critical to a successful retirement, you should seek an advisor who has earned the right to use the Certified Financial Planner designation. The CFP Board holds CFP practitioners to extremely high ethical standards. To learn more, or to locate a Certified Financial Planner, go to the CFP Board: www.cfp.net.

Finding the right advisor: 7 key questions to ask

These seven questions are designed to help you discover whether a financial advisor is the right match for you and your family. They're also designed to help you maximize the probability of achieving all that's important to you. With this interview guide, finding the right financial advisor becomes much easier.

1. How do you work with your clients to help them reach their financial goals?

This first question may seem obvious. Maybe you've never had a true financial advisor before. Or maybe you're unhappy with your current advisor's performance, client service or both. And if you're willing to go through the process of switching advisors, you want to make sure that whoever you do engage is the best choice to help you achieve your financial goals.

But there's a good reason to open with this simple question: It's a sort of litmus test. Based on how financial advisors respond, you'll know whether to move forward ... or thank them for their time and end the interview.

So what kind of answer should you look for? Surprisingly, the answer should have little to do with advisors' investment expertise, how long they've been in the business or how satisfied they claim their clients are.

You see, all those things are about the financial advisor. But they don't tell you *anything* about what you'll experience as a client.

Good financial advisors won't talk about themselves first. Instead, they'll ask about you, your family and your goals. And they'll have a systematic process for helping clients address their unique financial challenges and achieve their goals.

This process will vary from financial advisor to financial advisor. But in general, expert financial advisors focus on a consultative approach. And they have a clear and compelling process to make sure they don't leave anything to chance.

During your first meeting, advisors should ask you a series of ques-

tions to help them understand where you are now, where you want to go and whether there are any gaps that need to be closed. If you're in good shape with your current financial advisors, they should let you know. And if it's more appropriate to explore working together, they'll continue that process as well.

The best advisors work with only those clients they believe they can truly help. If you and the advisor aren't a good fit, he or she should be happy to refer you to a financial advisor who can work with you more effectively.

During the first meeting, financial advisors should take the time to gain a complete understanding of you and your family and then share with you their process to make sure that you consistently make informed decisions with your money to achieve all that's important to you.

Most important, elite financial advisors will explain their process to you in clear, simple language. In contrast, the average financial advisor will likely give you vague answers about client satisfaction. They may talk in broad terms about portfolio performance. Or they may try to impress you with their investment knowledge or credentials.

But all they're doing is desperately trying to disguise the fact that they don't have a thoughtful process to ensure that you reach your most important financial goals. In fact, most financial advisors don't have any sort of documented process when it comes to helping their clients. Instead, they "wing it" and hope for the best.

That may work for clients who need only simple, straightforward help with their financial planning. But if you have \$1 million or more in financial assets, you're wealthier than the vast majority of Americans; that makes you a high net worth individual in most parts of the country, and chances are your financial situation is much more complicated. Without a proven process to help you reach your goals, important opportunities—and dangerous risk factors—can get overlooked. And that can put your financial future at risk.

2. How will you address my key financial concerns?

When you hear the term "financial advisor," what comes to mind? If you're like most people, you immediately think of someone who

helps you invest your money. And it's true that most financial advisors are investment-focused. But that may be the *worst* thing for your long-term wealth goals.

Investment expertise is only one aspect of wealth management. By focusing solely on investments, most financial advisors ignore other critical areas of financial concern. That can cost you millions of dollars in unnecessary taxes, cripple your ability to provide for your heirs, and put your wealth at risk of being taken by litigation, creditors and identity thieves.

3. Do you specialize in working with certain clients?

As a successful investor, you have unique needs. A one-size-fits-all wealth management strategy won't serve your needs or help you reach your goals. That's why I always recommend that you work with a financial advisor who specializes in helping people like you reach your financial goals.

Think of it this way: If you need a quick general checkup, you go to your regular doctor. But if you need surgery, you go to a specialist—preferably one at the top of his or her field, with a long history of success helping people treat issues just like yours.

Likewise, a “regular” financial advisor is fine if you have simple financial needs. But because you're a successful investor and probably a high net worth individual, chances are your financial situation is far more complex.

For instance, if you are transitioning from worker to retiree—from saver to spender—you will have issues to face and decisions to make that are quite different than the average investor.

To answer those questions, you need a financial advisor who acts as your personal chief financial officer (CFO)—someone who can help you plan for the best-case scenario, the worst-case scenario and everything in between. And he or she should help you develop an overall wealth management plan that's aligned with your unique needs and long-term goals. We often see people who have simply outgrown their current advisor as their level of financial complexity, and planning needs, have grown.

4. Do you work as part of a team?

No financial advisor has all the answers. If they claim they do, then consider moving on. That's why any good financial advisor works with a team of other professionals to make sure all of your bases are covered.

At the very least, your financial advisor should have a core network of three specific professionals, including:

1. A **private client attorney** who is skilled in estate planning, wealth protection planning, succession planning and developing charitable giving programs
2. An **accountant, which is a CPA** who deals with tax planning and cash flow issues
3. An **insurance specialist** to identify and structure solutions that leverage the entire range of insurance options and protect your hard-earned wealth

Ideally, these professionals should focus on the same type of client that the financial advisor does. For example, if an advisor works with retirees from a specific company or industry who each have over \$1 million in assets, then the attorney should be accustomed to working with clients of similar net worth. The accountant should understand the best ways to minimize income taxes and generate enough cash flow from your investments while reducing impact on your nest egg. And the insurance specialist should focus on transferring risk to insurance companies when appropriate.

What's more, top financial advisors have an extended network of professionals to help address specific challenges. These professionals might include credit specialists, corporate tax lawyers, business brokers and more. And they should also work with your own attorney, accountant and insurance specialist to address all your financial concerns.



5. Why did you become a financial advisor?

This may seem like an odd question to ask. Unlike the previous questions, this query is somewhat abstract. And unlike the previous questions, there's no "right" answer. But *how* advisors answer this question can reveal more about them than can all the previous questions combined.

When it comes to a financial advisor, you need more than just the bare facts. You also need to know that an advisor has a *passion* for

what he or she does—and not just because he or she gets paid well.

When you ask this question, you're really asking advisors to tell you their personal stories. What led them to become financial advisors? Why did they decide to focus on a specific specialty? How have they worked to develop the skills and expertise to help you reach your goals?

And while financial advisors tell you their personal stories, you want to *watch* and listen carefully. When advisors are really passionate about what they do, you'll see it in their facial expressions and body language. When they talk about what made them decide to work with clients like you, they should have engaging, powerful stories about their paths. And they should be able to relate how their personal paths helped them get even better results for their clients.

6. If we decide to work together, what will that process look like?

As I mentioned earlier, it's a good sign if a financial advisor has a clear and compelling process to help you reach your goals. Research shows that advisors who have a clear process, as opposed to those who do not, have a much better understanding of their clients' concerns, have better client satisfaction ratings and are better at getting their clients the results they deserve.

But that's not quite enough to distinguish a truly elite advisor from the rest of the crowd seeking to work with you. In fact, there's a specific five-step process that top financial advisors use to make sure that clients get the best possible service.

Here's what you can expect when you become a client of one of these top advisors:

The Discovery Meeting

At the Discovery Meeting, elite financial advisors will ask you a series of questions to help them understand your current financial situation and your long- and short-term goals and identify any obstacles that may be in your way.

The best advisors also ask detailed questions about key nonfinancial issues, such as your values, your personal interests and important relationships in your life. Using the answers, wealth managers will

create an in-depth profile, often using Mind Maps® that help them understand the best way to help you reach your goals.

Investment Plan Meeting

After the Discovery Meeting, top financial advisors use the information they gathered about you to create a detailed investment plan to help you achieve your wealth preservation goals. During the Investment Plan Meeting, advisors present your personal plan and ask for your opinion and insights. Then, based on your feedback, they fine-tune your investment plan as necessary, to help you achieve your wealth management goals even faster—and with less risk.

Mutual Commitment Meeting

Once you've determined that you've picked the right financial advisor, it's time for the Mutual Commitment Meeting. This is when both you and the advisor formalize your working relationship. Typically, the advisor will explain how you'll work together over the coming months and years as well as schedule a check-in meeting. You should also take this opportunity to outline your expectations clearly and make sure you and the financial advisor are in alignment.

45-Day Follow-up Meeting

Your first Follow-up Meeting should take place about six weeks after the Mutual Commitment Meeting. During this meeting, your new financial advisor will help you organize the paperwork from the new accounts that have been opened and answer any questions you may have about the process so far.

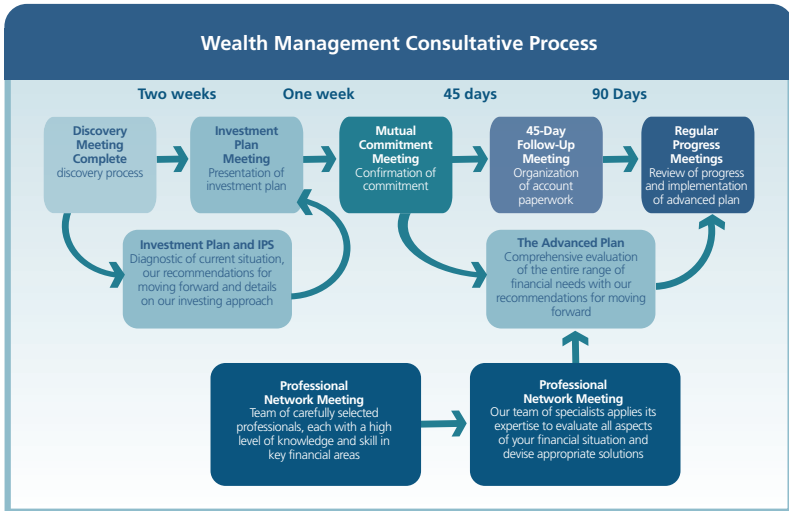
Regular Progress Meeting

Most top advisors hold Regular Progress Meetings based on your personal needs. In these meetings, your financial advisor will check to see if anything has changed personally, professionally or financially since your last meeting; report on your progress toward achieving your financial goals; assess whether your investments are on track; and recommend any specific fine-tuning, if needed.

In addition, the advisor will review your advanced planning recommended actions from his or her professional network, including mitigating income taxes, taking care of your heirs, protecting your assets

from being unjustly taken and giving charitably.

This is what our process looks like:



7. Knowing what you know now, why are you the right financial advisor for me?

By this point, you already know if the financial advisor you're considering uses a consultative approach. You know if he or she understands your top concerns and has a team, a process and the knowledge to help you reach your goals.

This goes beyond what licenses financial advisors may hold or even how long they've been in the business. What we're looking for here is a little different. As with Question #5 ("Why did you become a financial advisor?"), you want to pay attention to *how* the financial advisor answers this question and not just to what he or she says.

If the advisor goes into "sales mode," that should be a major red flag. While good financial advisors should ask for your business when they can help you achieve your goals, they shouldn't use this question to make a hard-sell final pitch. Instead, they'll summarize what they feel really makes them uniquely qualified to help you reach your goals.

Truly expert financial advisors also have a wide range of technical and interpersonal skills. In particular, these wealth managers have six intangible assets that show how happy their clients are with their services.

At our firm, we call these intangible assets the “**Six C’s**” of client satisfaction. They’re not always obvious. But you know them when you see them. And they’re often revealed by the way advisors answer this last question.

So what are these Six C’s of client satisfaction?

1. Character. Obviously, any financial advisor you work with needs to be 100 percent trustworthy. After all, you’re putting your family’s financial future in that person’s hands.

By now, you should have a sense of the financial advisor’s character. You should feel comfortable with your advisor and have a good sense of his or her integrity and commitment to clients.

But pay close attention to how he or she answers this last question. Does he or she demonstrate character by earning your trust and—more important—by *not* giving you the hard sell as a response to this question?

2. Chemistry. Like character, chemistry is hard to define. And it’s not typically revealed by a simple question.

As the financial advisor talks, pay attention to your own level of engagement. Do you sincerely want to hear his or her answer? Or are you just listening out of a sense of obligation, waiting for the meeting to end?

If you don’t feel engaged, the reason may be poor chemistry. For whatever reason, you simply haven’t connected with this particular advisor. And that can happen even if he or she is perfectly competent and has glowing references from people you trust.

But ideally, you want to feel a genuine sense of rapport with your advisor from your very first meeting. That helps tremendously when it comes to communicating your needs and goals. It also helps the advisor give you the best financial advice possible.

3. Caring. Do you believe the financial advisor sincerely cares about you and your family’s financial future? Does he or she “get” you? Or are you just another fee stream?

This is a critical issue. It’s easy for unethical financial advisors to pretend to care about your needs. They’ll promise you anything. But once you become a client, they often disappear or fail to live up to their promises.

In contrast, great financial advisors are truly concerned about you and your family as people. They take the time to understand what's important to you. They know your long-term goals and financial objectives intimately. And their passion for helping clients comes through in everything they do.

4. Competence. Of course, the financial advisor should be smart and able to manage the technical aspects of your finances. What's more, he or she should be *exceptionally* technically capable. Better yet, he or she should be recognized as a leading professional in your area surrounded by a great professional network.

5. Cost-effective. This is not a question of what the financial advisor costs, but instead it's about whether he or she provides you with substantial value for the cost.

6. Consultative. This is the *most important factor* because it frames your entire relationship with the financial advisor as an *ongoing, long-term partnership*. Through your questions, it should be clear that the advisor has a compelling value process to address all your major financial concerns.

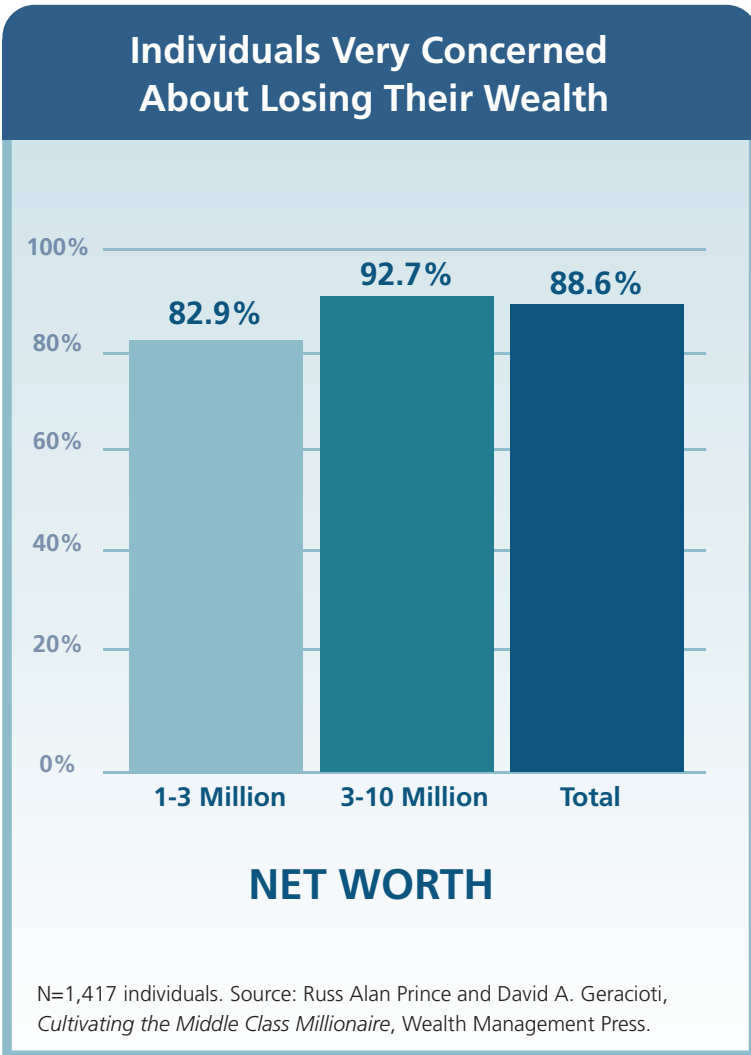
Five areas of concern for successful investors that most advisors ignore

So if good financial advisors don't focus on investing your wealth, what *do* they do? Simple. They actually focus on their clients' *real* concerns.

Based on their widely acclaimed study of more than 1,400 successful investors, Russ Alan Prince and David A. Geraciotti identified five areas of key concern for successful investors. But most advisors—a whopping 94 percent—don't systematically address these concerns for their clients.

As you can see, over 88 percent of investors surveyed said they were very concerned about losing their wealth. And almost 85 percent cited tax reduction as a major source of concern—particularly the estate tax and capital gains taxes.

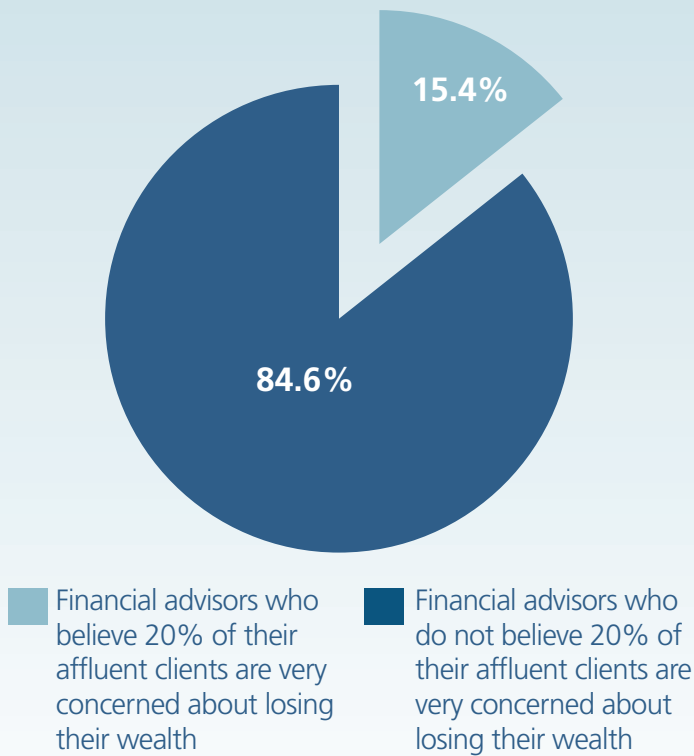
But here's what's really surprising: As the chart below reveals, Prince and Geraciotti's survey of 512 financial advisors from across the



United States found that ***many of them had little idea of what was actually important to their clients!***

Incredibly, just 15.4 percent of financial advisors—around one out of seven—actually knew that wealth preservation was their clients' No. 1 concern. Less than half knew their clients were worried about taking care of their heirs. And fewer than one in 10 of the advisors surveyed knew that lowering taxes—especially capital gains and inheritance taxes—was another key concern of affluent clients.

Do Financial Advisors Believe Clients Are Worried About Losing Their Wealth?



N=512 financial advisors. Source: Russ Alan Prince and David A. Geraciotti, *Cultivating the Middle Class Millionaire*, Wealth Management Press.

But great financial advisors know all that—and more. Why? Because they ask their clients about their biggest financial concerns. And then great advisors develop a plan that addresses all those concerns in a systematic way.

There are five key areas that expert financial advisors focus on. Let's look at each more closely.

1. Wealth preservation. Growing your nest egg is important. But in today's volatile economy, *preserving* your hard-earned wealth is an

even bigger issue. Expert financial advisors know that wealth preservation planning helps insulate your life savings from the ups and downs of the market *and* it provides steady, predictable growth.

2. Mitigating taxes. We all have to pay taxes. But that doesn't mean you should pay more than your fair share. Make sure your advisor can help you with strategies to find new ways to cut your tax burden—from income taxes to capital gains taxes to estate taxes. Most will have a highly seasoned CPA or tax professional in their network of advisors to help you.

3. Taking care of your heirs. If you're like most people, estate planning is the last thing you want to think about. No one really wants to think about their own demise, and the rules and regulations can be complex and highly technical, and can vary from state to state. In fact, according to a recent survey, half of Americans don't have any of the most basic estate planning documents—including a will, a living will, and financial and medical powers of attorney—needed to protect them (and their assets) if they're incapacitated.

That's a serious problem. You see, an out-of-date estate plan can leave your heirs wading through piles of paperwork and fighting with each other, and can cause years of legal headaches and family disharmony. That's why top financial advisors work with you and your other professionals to find the best ways to manage your wealth now *and* in the future.

4. Protecting your assets from being unjustly taken. One of the most overlooked aspects of wealth management is protecting your assets from potential creditors, litigants or ex-spouses. Your advisor should be able to help you control your risk with proven strategies that put your wealth beyond the reach of creditors and other parties.

5. Making charitable gifts. More and more successful investors view making meaningful gifts to charity as a key part of their overall wealth management plan—but too many advisors underestimate their clients' charitable intentions. That's why smart advisors have proven strategies to help you find the best ways to make gifts—from selecting causes to finding the best organizations to structuring your gift so it maximizes the benefits to all.

As an investor, you should expect more from your financial advisor.

You should expect him or her to have a wide-ranging, long-term wealth management plan. This plan should be reviewed and updated annually, or as your situation changes. That's the best way to protect, preserve and grow the wealth you've worked so hard to build.

Key Takeaways

- When it comes to finding the right advisor, there are seven key questions to ask.
- Unlike retail brokers, registered investment advisors are independent and legally required to act as fiduciaries to their clients—clients' interests must always be put first.
- Registered investment advisors are paid a fee by their clients and do not receive commissions or other compensation from any other source.
- Top financial advisors don't talk about themselves first. Instead, they ask about you, your family and your goals, and they talk about how their wealth management process will help you address your unique financial challenges and achieve your goals.

Chapter 4

CHANGES IN THE PETROCHEMICAL INDUSTRY RETIREMENT LANDSCAPE

OVER THE PAST 20 YEARS OR SO, WE HAVE SEEN A DRAMATIC SHIFT away from monthly pension benefit plans toward 401(k) savings plans. This emphasis on 401(k) plans puts the burden of retirement planning on the worker. Therefore, workers have become responsible for their own retirement success. They must contribute enough to their 401(k) plan, as well as manage the investments within their plan.

Energy companies are facing a shortage of talent. A five-year forecast by Mercer Energy Consultants shows a projected shortage of 300,000 to 500,000 workers for the worldwide energy industry. As the workforce ages, researchers estimate that between 40 percent and 80 percent of workers holding technical and engineering positions could retire in the next five years.

Many energy producers still have defined benefit pension plans. That means employees can choose between a monthly pension and a single lump-sum payment. These lump-sum payments are calculated based on current interest rates, often using the 10- or 30-year U.S. Treasury Bond interest rates. As interest rates have fallen over the past few years, longtime employees have seen huge increases in their lump-sum benefit amounts because the lump-sum benefit is cal-

culated as the present value of your monthly pension benefit, and is based on current interest rates. At lower interest rates, it would take a larger lump sum to provide the same monthly benefit. BP America became concerned about this trend as more and more workers began requesting estimates of their lump-sum benefits. The concern among major energy producers like BP was that if too many workers retired at the same time, there would be a severe shortage of experienced workers possessing critical skills.

In response, BP America changed its method of calculating lump-sum benefits. BP's new calculation uses the lesser of (a) the current interest rate, or (b) 4.8 percent, when calculating the lump-sum payment amount. This policy became effective in July 2011 and has had the effect of eliminating the impact of falling interest rates on lump-sum calculations. The decision to change the calculation method immediately and dramatically slowed the number of employees who opted to retire.

Conclusion

When it comes to retirement planning, change is constant. It takes a great deal of effort to keep up with, and determine, the impact of ongoing changes in the retirement planning landscape. Since change is constant, planning should be an ongoing process, not a one-time product.

Key Takeaways

- Energy industry employees are becoming more responsible for managing their own retirement success at a time when there is a severe shortage of skilled workers.
- Many energy producers still have defined benefit pension plans. Employees can choose between a monthly pension and a single lump-sum payment.
- As interest rates have fallen over the past few years, longtime employees have seen huge increases in their lump-sum benefit amounts.

- New retirement policies have been introduced to lessen the impact of falling interest rates on lump-sum calculations. The decision to change the calculation method has slowed the number of energy workers opting to retire.

Chapter 5

CAN I AFFORD TO RETIRE?

THE MOST COMMON QUESTION that I have heard over the years is “Can I afford to retire?”

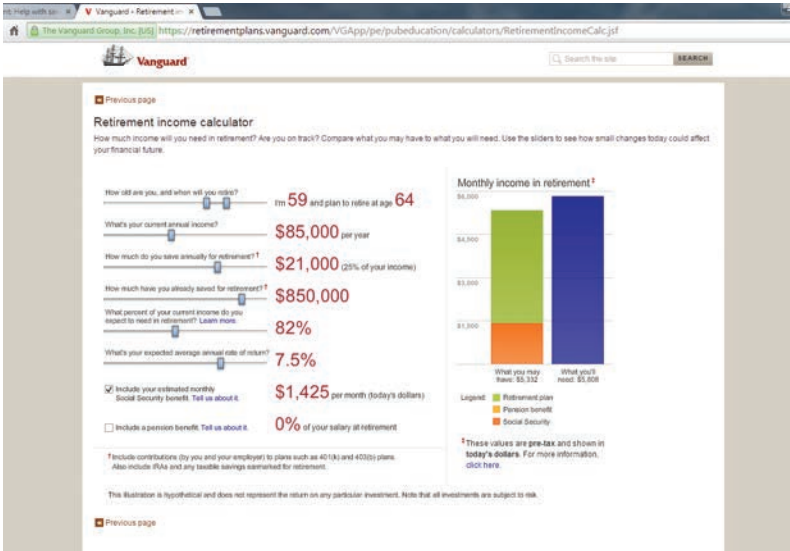
For most people, it is relatively easy to determine whether they have enough income at the time they plan to retire to replace their current earnings. However, you also need to determine if there is enough money to provide you with the *inflation-adjusted* income that you need in order to live in the style to which you’re accustomed for the rest of your life. Keep in mind that it takes \$1.59 today just to buy what \$1.00 would buy you 20 years ago! That’s a 59% increase!

There are free tools and calculators available online that can help you project an appropriate spending level during your retirement years. Both Vanguard and T. Rowe Price offer online calculators that can be very helpful. These online calculators can be found at:

<https://investor.vanguard.com/retirement/>

<http://individual.troweprice.com/public/Retail/Retirement/Retirement-Planning>

Typically, these calculators will indicate that you have **not** saved enough and that you have too much exposure to equities (i.e., risk assets). This is the do-it-yourself issue—the calculators show you what’s wrong with your retirement picture, but not how to fix it. These online tools, like the ones mentioned above, are usually very simplistic. Most people can fill them out and use them to print out nice charts and graphs of one’s general retirement picture. As most of you know, the big financial institutions that offer these calculators free of



charge on their websites hope that you will eventually contact them for advice. Again, the Vanguards and T. Rowe Prices of the world are reputable organizations. They just deal in very large volume, so the advice they may give you will be fairly generic.

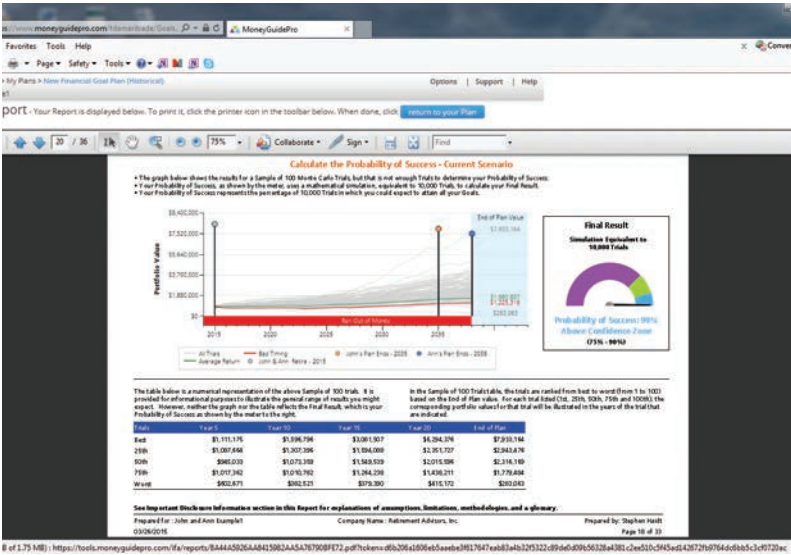
Value of personalized service

My clients know that at Retirement Advisors, Inc., we use very sophisticated software that is capable of modeling several different retirement planning scenarios tailored to their unique situations. A few of these scenarios show the impact of variables such as

- Different portfolio models
- Relocating to another state during retirement
- Replacement of the primary house

This gives us the ability to measure the impact of these different choices on the assets you have accumulated. We also employ Monte Carlo simulations, which allow us to run thousands of financial scenarios about your retirement years, using random assumptions about investment returns and inflation. This generates a probability of success under various investment return scenarios. This analysis is kept up to date for each client during retirement in order to avoid any surprises in

the years ahead. It is not enough simply to transition into retirement—it is vitally important to monitor your finances going forward in order to *remain retired*.



Research shows you can't go wrong by planning ahead

Our firm recently conducted a detailed survey of our clients to learn more about their retirement hopes, fears and preparations. **According to our research, the fear of running out of money during retirement was the No. 1 concern cited by our clients before they actually retired.** Also, when we asked clients about what their advice would be for others nearing retirement, the top two answers cited were (1) to plan early and (2) to find a good advisor.

Only 35 percent of survey respondents indicated that they had an advisor before preparing to retire, but 100 percent of respondents said that an advisor would have been helpful during this all-important pre-retirement phase. Also, 90 percent of respondents—not all of whom are Retirement Advisors, Inc. clients, by the way—now have an advisor during retirement.

Did you have an advisor prior to retiring? **35%**

If not, do you think an advisor would have been helpful in your pre-retirement years? **100%**

Do you have an advisor now that you're retired? **90%**

Source: Retirement Advisors, Inc., 2015

If you plan to use an advisor during retirement, my advice is to start working with that advisor at least a year or two **before** you plan to retire. Locate an advisor with expertise guiding people into retirement and successfully keeping them retired. **Most advisors claim to provide retirement planning services, but very few have actually developed it into a specialty.** In Chapter 3 we showed you how to find the right advisor.

Our survey results indicated an average retirement age of 59.5 among respondents. That's quite a bit younger than the national average of 62, according to the U.S. Census Bureau. This shows that for many of you, all the years of hard work have paid off both financially and in terms of quality of life. But retiring younger also means that you will have more years without employment income, so retirement can cost more money over the long term than you might have expected. Also, having more active years during early retirement usually leads to more spending on travel and leisure activities.

7 key benefits of working longer before retiring:

1. Your savings continue to grow.
2. You can continue to add to your 401(k) account.
3. You can continue to receive employer matching contributions to your 401(k) account.
4. You can continue to reduce debt.
5. Pension benefits continue to grow.
6. Social Security benefits continue to increase.
7. Retiring later results in fewer retirement years to finance.

Conclusion

So once you have determined that you can afford to retire, you still must decide whether or not NOW is the right time to retire.

In the chapters that follow, I'll show you how to make that decision with confidence.

Key Takeaways

- Free online retirement tools and calculators are a start. They can show you what's wrong with your retirement picture—but rarely how to fix it.
- At Retirement Advisors, Inc., we use sophisticated software to model a myriad of retirement planning scenarios tailored to your unique situation.
- Make sure you and your advisor can assess, among other factors, the impact of changing portfolio models, relocating to another state during retirement or replacing your primary house.
- Monte Carlo simulations allow us to run thousands of financial scenarios about your retirement years using random assumptions about your investment returns and inflation.
- It's crucial to monitor your finances regularly so you can **remain retired**. Keep records and planning analyses current to avoid any surprises in the years ahead.

Chapter 6

SHOULD I RETIRE NOW IF I CAN AFFORD TO?

AS THE OLD SAYING GOES, “Be careful what you wish for; you just might get it.”

The second most common question that I have been asked over the years is “**So, should I retire now?**” In many cases, this is the more difficult question to answer—yes, even more difficult than “Can I afford to retire?”

We recently conducted a detailed survey of our clients in preparation for writing this book. Our research showed that for 19 percent of respondents—people just like you and your spouse—the biggest concern prior to retiring was “**staying occupied/not getting bored.**” Our research also showed that “**freedom with time**” was the single most enjoyable facet of being retired. Thus, it appears that time, and the use of time, are both the reward and the curse of retirement.

From an emotional standpoint, retirement can be one of the most stressful times of one’s life. It is a complex transition for almost everyone, characterized by gains and losses, along with tremendous shifts in personal identity and daily routines. For many successful people, their work has always been an important part of their identity. They are uncomfortable without work even if they have more than enough money saved up to live very comfortably without working. This loss of identity and daily work routine can be very disconcerting, especially if you’re not prepared for this life transition.

If this sounds like you, or someone close to you, you’re not alone. A recent Ameriprise Financial survey found that seven out of 10 retir-

ees had challenges adapting to retirement. Ameriprise concluded that there are three keys to feeling confident about your retirement:

1. Being in control of your retirement decision
2. Having completed the right financial preparation
3. Being prepared emotionally and socially

Seems like a simple plan to follow. So why is retirement so hard for many people? Everyone knows what they are planning to retire **from**. But I find it helpful to spend some time thinking about what you will retire **to**.

When you get to a certain age, the tendency is to spend more time looking through the rearview mirror rather than the front windshield. But you've got to keep looking forward with your eyes focused on the road ahead.

Spend some time thinking about what your routine will look like. Will you take up any new hobbies? Spend more time on your current hobbies? Will you sign up for volunteer work? Do you plan to travel more?

Real-world case study: Tom

I have a client, let's call him Tom, who had a pretty rough time emotionally for the first six months of his retirement. Prior to retiring, he had a very important role at a major manufacturing facility. He managed a group of employees and was very serious about helping them grow and reach their full career potential. Tom was totally engaged with the company and was very committed to both the organization and to his fellow workers. His personal identity and feelings of importance were very much linked to his job. He had even counseled other employees as they prepared to enter their retirement years and was totally surprised by his own emotions when it was his turn to retire. One of the toughest things for him to deal with early on was the perceived loss of importance. Rather than relishing his newfound freedom, Tom felt as though he had abandoned his fellow employees. He greatly missed the sense of importance he had at work and the challenges he faced. For several months, Tom would contact his

old office just to check in and see how everyone was doing. Soon, he realized that the company was running just fine without him. That can be tough for longtime, loyal supervisors. He described to me that he felt like “a race car driver without a car, who was only able to watch from the stands.”

Fortunately, Tom has adjusted to retired life and is now thriving. He stays very busy, remains active in his community and enjoys each day as a retiree. On occasion, he still gets calls from former co-workers asking for advice regarding their own retirement. He’s more than happy to give advice, but relishes time away from the day-to-day stress of working life.

Next steps

Realize that adjusting to retirement will take some time. Make the effort to create the lifestyle that you desire. Retirement can be so much more than just a period in your life when you don’t have to go to work simply out of economic necessity. However, for most people, retirement requires effort to shape your new lifestyle and new vision of yourself.

It is important to take some time to think about how you will stay occupied after you have stopped going to work every day. We all know that we can develop new hobbies, spend more time with existing hobbies, volunteer our time, etc. However, these changes come more easily for some people than for others. If you have serious doubts about whether you will be happy without working, then you should seriously consider working longer. Many people in this position find it is much easier to continue working at their current job than to find a new job if they discover they don’t enjoy being retired.

Key Takeaways

- Retirement can be one of the most stressful times of one’s life. It is a complex transition characterized by tremendous changes in your personal identity and daily routine.
- While many working people complain about having “no life” (i.e., no free time on their hands), worries about boredom top

the list of concerns among pre-retirees.

- Keys to a happy retirement include being in control of your retirement decision, being financially prepared, and being prepared emotionally and socially.
- Just as saving for retirement must be done years in advance, so should planning your ideal retirement lifestyle. Retirement is a big transition. It will take some time to adjust.

Chapter 7

HOW CAN I MINIMIZE MY TAXES?

WE ALL WANT SMOOTH ROADS, good schools, safe neighborhoods, regular trash collection and a strong national defense. But all these public sector benefits that give us peace of mind and a high quality of life cost money—a lot of money.

As many of us have learned the hard way, taxes can (and do) eat up a great deal of our hard-earned wealth. The top-earning 5 percent of the population pays nearly 60 percent of the federal income taxes collected by the IRS each year. Taxes on investment returns can have a big impact on our ability to grow and preserve wealth. Tax laws are in a constant state of flux these days, but uncertainty about the rules should NOT prevent you from taking a serious approach to tax planning. Tax planning is an essential part of any financial strategy that you have in place for you and your family.

Yet, a recent survey of our clients revealed that tax worries did not show up on anyone's list of top concerns about their retirement—**it should have!**

As former President Franklin D. Roosevelt once said, taxes are the “dues that we pay for the privileges of membership in an organized society.”

But that doesn't mean we look forward to paying for those privileges. A study of 1,407 affluent individuals by Russ Alan Prince and David A. Geraciotti (**see below**) showed that mitigating income taxes is a concern of more than 90 percent of those with net worths between \$1 million and \$3 million, and of more than three-quarters of

AFFLUENT INVESTOR'S CONCERNS ABOUT TAX MITIGATION

Tax Concern	Net Worth		Total
	\$1–\$3 million	\$3 – \$10 million	
Mitigating income taxes	90.1%	77.3%	84.7%
Mitigating estate taxes	21.7%	81.3%	49.2%
Mitigating capital gains taxes	27.1%	58.5%	41.7%

Source: Russ Alan Prince and David A. Geraciotti, *Cultivating the Middle Class Millionaire*

those with net worths between \$3 million and \$10 million. For those in the higher-net-worth range (\$3 million and up), mitigating estate and capital gains taxes are also major concerns.

In that same study, Prince and Geraciotti also discovered that among those with a net worth of more than \$1 million

- 79.2% were concerned about **ensuring heirs were taken care of;**
- 77.3% were concerned about **having adequate medical insurance;**
- 71.5% were concerned about **having enough money in retirement;** and
- 48.3% were concerned about **paying for children's or grand-children's education.**

All of the above have tax implications.

My intention is to raise your awareness about both tax pitfalls and tax-savings opportunities, but you should always consult with your tax advisor for information related to your unique situation. No two clients are the same. Here are a few tax strategies to explore.

1. **Review life insurance opportunities** – When life insurance policies are properly implemented, they can provide you with substantial savings on both your income taxes and estate taxes.
2. **Heed the importance of your income tax basis** – As an investor, be sure that your records are complete when it comes

to the original (and subsequent) purchase price of any assets that you own. You need complete tax information and data in your records. Make sure you take your true cost basis into account when making gifts or sales within the family.

- 3. Review and take advantage of qualified retirement plans and IRAs** – All tax-deferred retirement plans should be reviewed to determine your maximum investment potential and to establish appropriate distribution strategies.
- 4. Consider the use of trusts** – These can be used to receive income and spread it out over several years.

Key Takeaways

- Tax planning is a crucial part of the wealth management puzzle and should be carefully integrated with the other parts of your overall financial picture.
- Taxes on investment returns can have a big impact on our ability to grow and preserve wealth.
- Tax laws are in a constant state of flux these days, but uncertainty about the rules should NOT prevent you from taking a serious approach to tax planning.
- Surprisingly, tax worries did not show up frequently in a recent survey of our clients' retirement concerns—they should have!

Chapter 8

HOW DO I PROTECT WHAT I HAVE?

IF YOU'RE LIKE MOST PEOPLE, you are very concerned about the safety and protection of your loved ones. In today's world, many of the social contracts that used to be taken for granted—honesty, privacy, and looking out for your neighbors—no longer apply. There's just so much more to keep your eye on today and so many other areas of your life that need protecting in today's fast-moving, complex world.

There are three important ways you can protect your wealth:

1. **Mitigate risk.** This means taking action to minimize your risk exposure, and if that exposure occurs, minimize the impact it has on you and your family.
2. **Transfer risk away.** This means moving risk away from you and shifting it to another party. The most common way to accomplish this transfer is through the use of insurance.
3. **Don't get overwhelmed.** Keep the big picture in mind. And just chip away at any gaps you see in the list of potential *gotchas* below.

Gotchas

It is also vitally important to protect your financial assets. Some areas of risk include being taken advantage of financially, being the target of lawsuits and doing business with unscrupulous people. Here are some ways to mitigate your risks:

- Conduct background checks on any financial advisor you are considering using. A good place to start is with the [Financial Industry Regulatory Authority](#) (FINRA offers an online tool for researching the backgrounds of financial advisors at www.finra.org).
- Conduct a background check on any potential business partner.
- Get a second opinion on any major financial transactions.
- Consider a prenuptial agreement prior to getting married.
- Be sure to claim your homestead exemption on your primary residence.

In this age of identity theft, it is very important to protect your confidential information.

- Never give your Social Security number to anyone (in person, on the phone or via email) unless absolutely necessary. Be sure that you know to whom you are talking and why they are asking.
- Keep photocopies of your credit cards in a safe place.
- Shred all your documents that contain personal information.
- Do not leave mail in your curbside mailbox overnight—or place outgoing mail in your mailbox.
- Guard your computers and handheld devices with up-to-date passwords.
- Monitor your credit reports and financial statements regularly. You can order one credit report from each of the three major credit reporting agencies free at AnnualCreditReport.com (www.annualcreditreport.com).

Insurance

Another important part of protecting yourself from risk is reviewing all insurance coverage you have (or think you have) in order to make certain that you have ample homeowner's, automobile and watercraft coverage. Your primary financial advisor can help you find an insurance specialist who will conduct a complete review of all your insurance needs.

Be sure to ask your insurance specialist about flood insurance. Particularly with hurricanes, there is often a debate, or denial of coverage, based on whether the damage was caused by wind or by rising water. By having flood insurance, along with wind coverage, you can greatly reduce the risk of suffering damages that your insurance company does not want to pay for.

A very important, but often overlooked, area is umbrella coverage, which protects you from the risk of lawsuits, medical bills and attorney fees if you injure someone, or if someone is injured on your property. Umbrella insurance is very important, as many homeowner's and auto policies include only \$300,000 of liability protection.

Verify that you have adequate life and health insurance coverage.

Consider long-term care insurance. Our recent survey of our clients found that "healthcare costs" was one of their five biggest retirement concerns. Long-term care refers to the help that people with chronic illnesses, disabilities or other conditions need on a daily basis over an extended period of time. Long-term care insurance can help you pay for the care that you or a loved one needs, whether that means living at home or in an assisted-living facility or a nursing home. The insurance might also pay expenses for adult day care, care coordination and other services. Some policies will even help pay costs associated with modifying your home so you can keep living in it safely.

These issues should be evaluated in order to determine whether you can afford to self-insure this risk. Another option is to buy coverage that will cover a portion of the potential costs, with the understanding that the remaining cost will be paid from investments.

Social Security benefits are very important to most retirees, so be sure to review your annual Social Security statements for accuracy. Go to <http://www.ssa.gov/> to verify information and use the free [Retirement Estimator](http://www.ssa.gov/planners/benefitcalculators.html) calculator at <http://www.ssa.gov/planners/benefitcalculators.html> to give you benefit estimates based on your actual Social Security earnings record.

The protection planning process should include the following steps:

1. Assess your risks.
2. Evaluate possible strategies.

3. Select the best strategies.
4. Implement the protection measures.
5. Follow up periodically to be sure that your changing needs are still being met.

Conclusion

If you work with a wealth manager, he or she should have an attorney and an insurance specialist in their network. Working together as a team, these professionals can create and implement a plan that will make sure you and everything important to you are better protected than ever before. If you don't use the specialists within your advisor's network, then your advisor should communicate with your other advisors. This way, all your advisors are working together to help you achieve all that is important to you.

Key Takeaways

- There are two very important ways to protect your wealth: Mitigate risk and transfer risk away.
- Many retirees and pre-retirees are surprised to see how underinsured they are and how much other potential liability they could be exposed to.
- A skilled advisor can help you review your overall risk exposure and insurance needs, but you also must do your part in protecting your identity and other confidential information.
- Elite advisors typically have attorneys and insurance specialists in their network to help you. This team approach can save you tremendous time and worry, and ensure that you and everything important to you are better protected than ever before.

Chapter 9

WEALTH TRANSFER

ESTATE PLANNING is one of the most misunderstood areas of retirees' lives. Most of the attention tends to fall on estate tax issues; however, that is only one part of the equation. Other important issues include management of assets, selection of trustees and executors, and preparation of heirs to receive and use the assets they will inherit.

We understand that estate planning is not a subject many people enjoy dealing with. Perhaps that's why, in a recent survey we conducted, only one in three of our clients (37.9%) said they felt "Very" prepared for retirement. What's more, our research found that nearly two-thirds of clients (62%) place high importance on leaving an inheritance for their children and grandchildren, and nearly four out of five (79.3%) said they were "Very" or "Extremely" concerned about not having anything left to pass on to their children and grandchildren.

Key Attitudes and Concerns of the Affluent

Fear not having anything to pass on to children/grandkids	79.3%
Ensuring that heirs are taken care of	79.2%
Place high importance on leaving inheritance to children/grandchildren	62.0%
Feel very well prepared for retirement	37.9%

Sources: Russ Alan Prince and David A. Geraciotti, *Cultivating the Middle Class Millionaire, 2005*; and Retirement Advisors, Inc., *client survey, 2014-2015*

You can begin by reviewing your existing estate planning documents. This should be done every three to five years, as tax laws are constantly changing.

Then, begin to set short-term and long-term goals for you, your family and subsequent generations. These goals can include things like financing the education of younger family members, helping a young couple in your family make a down payment on their first home, starting a business and more.

Carefully consider the options for financing the education of younger-generation family members. Grandparents can help by gifting up to the gift-tax exclusion amount of \$14,000 per year per grandchild. Also, there is an unlimited gift-tax exclusion for payments made directly to educational institutions.

Your will or trusts can include special provisions for funding the college educations of your children in the event of your death. The eventual distribution and protection of the family's wealth down through the generations need to be analyzed and documented very carefully.

All life insurance policies that you own should be reviewed every three to five years. Life insurance is often considered a "wealth replacement" vehicle that can add to your family's wealth by paying for estate taxes, mortgage debt, or other business or estate liabilities. A life insurance trust can be used to keep the proceeds of your life insurance policies outside of your estate in order to avoid estate taxes on these proceeds.

Consider trust planning. Irrevocable trusts are useful for protecting and managing financial wealth. Such trusts allow you to separate ownership of trust assets by beneficiaries from trust management by trustees. For example, an investment account can be left to a trust upon your death. This way, the trust can be professionally managed while the beneficiary reaps the rewards. Another benefit of using trusts is the ability to provide income for your heirs without allowing them to spend the entire principal.

Conclusion

When evaluating estate planning strategies, be sure to consider your charitable goals, if any. A variety of trusts can be used to implement charitable goals. These will be covered in Chapter 10.

I strongly recommend you get professional advice for estate planning. Most attorneys are capable of drafting a simple will, but it is important that you hire an attorney or a firm that specializes in estate planning. This is another way in which our firm serves as your own personal Chief Financial Officer (CFO). We can communicate with your attorney and meet with him or her on your behalf in order to ensure that nothing is overlooked.

Key Takeaways

- Research shows that taking care of heirs is one of the highest priorities—and biggest retirement worries—among the affluent.
- Review your existing estate planning documents every three to five years. Tax laws are constantly changing.
- Life insurance should also be reviewed every three to five years. Think of it as a “wealth replacement” vehicle—not a bill—that can add to your family’s wealth by paying for estate taxes, mortgage debt, or other business or estate liabilities.
- Irrevocable trusts are useful for protecting and managing financial wealth. Such trusts allow you to separate ownership of trust assets by beneficiaries from trust management by trustees.

When evaluating estate planning strategies, be sure your advisor and your family understand your charitable goals.

Chapter 10

HOW DO I FUND MY CHARITABLE GOALS?

AMERICANS HAVE ALWAYS BEEN GENEROUS. We give over \$335 billion a year—about \$2,000 per household—to charity, according to the latest figures from the widely cited Giving USA/Indiana University Lilly Family School of Philanthropy study.

Regardless of your charitable intent, proper planning can help you maximize the impact of your gifts in a number of ways. Giving is about a lot more than writing checks to worthy causes and organizations. It's about making gifts that reflect your deepest values and interests. Most people tend to give to organizations they're already familiar with, but there are several good ways to expand your philanthropic universe and locate charities that are a good fit for you and your family. Two good sources include [Charity Navigator \(www.charitynavigator.com\)](http://www.charitynavigator.com) and [GuideStar \(www.guidestar.com\)](http://www.guidestar.com).

But before you start writing checks and putting your charitable plans in motion, you need to be very clear with your advisor (and yourself) about what you're hoping to achieve by gifting. As the annual U.S. Trust/Philanthropic Initiative survey usually shows, advisors tend to overestimate the importance of tax benefits and of enhancing the family name/business. At the same time, advisors tend to underestimate their clients' desires to encourage future generations in philanthropy.

Some advisors believe that a primary reason a client may hesitate to give is the client's perceived wealth inadequacy (i.e., concern about

running out of money for themselves or their heirs). However, researchers found that affluent clients are actually more concerned about their donations not being used effectively. They're also concerned about the ever-increasing number of donation requests they receive.

Once worthy individuals, causes or organizations have been identified, you must decide when to give and how. Will you give annually, sporadically or as a legacy in your will?

What will you give? Cash donations are tax-deductible, within limits. If you donate appreciated stock that you have held for at least one year, you can take a tax deduction for the full market value. This allows you to avoid capital gains taxes on the sale of the stock.

Virtually any type of property (clothing, real estate, autos) can be donated. Tax deductions are allowed, with certain limits.

Financial assets and property are not the only things you can give. You can also donate your time and expertise. As a recent study of our clients revealed, more than half (52.2%) of our clients said they have worked to a certain extent since retiring, and again and again, they used expressions such as "fear of boredom" to describe their biggest pre-retirement concern. Interestingly, the issue of time came up again in another client survey question about the single most enjoyable aspect of retirement. They frequently used such phrases as "freedom of time," "freedom to do what I want, when I want" and "not being told what to do."

Many of our clients are very generous with their time and make a substantial impact. They assist organizations with program activities, serve on boards or help with fundraising. You can deduct expenses related to volunteering (i.e., vehicle mileage), even though the value of your time is not deductible.

By utilizing a "will bequest," (simply leaving an asset to someone in your will) you can retain the use and ownership of your assets while you are still alive. You can leave cash or property to charity by including a bequest in your will or trust. For an IRA account, you can name a charity rather than a family member as your beneficiary. Keep in mind that the beneficiary designations can be made in percentages (i.e., the entire account balance can be divided among several people and/or charities).

There are also several types of trusts that can be used to fund your charitable goals:

- A **Charitable Remainder Annuity Trust (CRAT)** is used when the donor wants to receive a stream of income for a specific time period (up to 20 years). The donor receives an income tax deduction for the present value of the ending value of the trust. At the end of the time period, the charity receives the remaining value of the trust.
- A **Charitable Remainder Unit Trust (CRUT)** is similar to a CRAT, except that the donor can make more than one contribution to the trust and the trust can be set up to pay out income to the donor for the remainder of his or her life.
- A **Charitable Lead Trust (CLT)** is designed to reduce the donor's current income taxes. A portion of the trust's income is first donated to a charity, and then, after a specified period of time, it transfers the remainder of the trust to the beneficiaries. This is designed to reduce the potential gift and estate taxes of the beneficiaries.

Charities, universities and other types of organizations will provide a lot of help in setting up these types of trusts.

Conclusion

When it comes to charitable planning, there are many options and different methods to consider. There are very few “rules of thumb,” and each person's unique situation and goals must be considered.

Key Takeaways

- Giving is about a lot more than writing checks to worthy causes and organizations. It's about making gifts that reflect your deepest values and interests—and your family's.
- We tend to give to organizations that we're already familiar with, but there are several good ways to expand your philanthropic universe.

- Before you start writing checks, be very clear with your advisor (and yourself) about what you're hoping to achieve by gifting.
- While there are limits on your cash donations, you can deduct the **full market value** of appreciated stock* gifted to charity and also avoid capital gains tax.
- A will bequest enables you to retain the use and ownership of your assets while you are still alive.

**Provided you've held that stock for at least one year*

Chapter 11

WHAT COMMON RETIREMENT PLANNING MISTAKES SHOULD I BE TRYING TO AVOID?

OVER THE YEARS, I HAVE SEEN PEOPLE MAKE ALL SORTS OF MISTAKES when it comes to their retirement security. Often, by the time they come to me, they have already made costly errors and misjudgments that are very difficult, if not impossible, to correct. I have seen people make big financial planning and investment mistakes. That is why planning sooner rather than later can have a significant impact on financial success. By updating our planning on a regular basis, we are able to make minor adjustments going forward, instead of being forced to make big adjustments.

Financial planning mistakes

1. **Retiring too soon** – Resist the urge to retire just because you have reached a certain age. Everyone ages differently—physically, emotionally and cognitively. There are many “anchor points” on which people base their retirement age. Age 62 is one of the common anchors, since that’s when Social Security benefits can be received. However, your benefits will be greater the longer you can delay retiring, and anchor points such as age 62 ignore the fact that life expectancies are longer than ever. This means you could have to support yourself for 25, 30, even

40 or more years without employment income—significantly longer than what the government had in mind when it set up the Social Security program back in 1935.

- 2. Having no retirement plan** – A retirement income projection is vital in order to see what your future levels of income and investment assets will look like. Retiring without looking very closely into your financial future can be a devastating mistake. Having a road map (plan) greatly increases your chances of reaching your destination (goals). The idea is to create a realistic plan and stay the course.
- 3. Not monitoring or updating your retirement planning projections** – Once you have plotted a retirement course, you should review your plan at least once per year. Things change over time, both with your personal financial situation and with the laws and rules relative to taxes and estate planning. Review your plan in order to make sure that you are still on track and to determine whether any adjustments need to be made.
- 4. Refusing objective help** – Many people ruin their retirement years by insisting that hiring a financial advisor is a big waste of money. ***Do you really believe that you have the time, expertise and resources to know everything there is to know about retirement planning and investing—and to keep current with that knowledge?*** A good advisor can help protect you from two big emotional traps—fear and greed. Many go-it-alone investors were ruined in the bear market of 2007 to 2009. It was a devastating time; the financial markets declined 37 percent. But thousands of other investors weathered this storm with the help of their professional advisors. Those investors recovered their 2008 losses in 2009. These advisors saved many retirement dreams that may have otherwise been wrecked during the 2007-2009 global financial meltdown. An expert advisor can help you avoid devastating mistakes.
- 5. Not thinking of your spouse's situation in the event of your death** – If the breadwinning spouse in a relationship is

managing the financial and investment decisions, what happens if that person dies first? I have seen this situation many, many times. Trust me, it gives the surviving spouse great peace of mind, just knowing that I am available to help during this very difficult time. I already understand their goals and financial situation. He or she also gets great comfort from knowing that the income will continue and that no one—including fraudsters or disingenuous family members—will be able to take advantage of them financially. The plan that was made together will continue to be utilized, even after the death of the first spouse.

- 6. Carrying debt into retirement** – It is certainly best to have zero debt as you move into retirement. If you have problems sticking to a budget or controlling your spending, then retirement should be postponed until such issues have been resolved. It is best to have all of your debt retired **before you retire**, so you can start your new chapter in life with a clean and healthy balance sheet.
- 7. Miscalculating your life expectancy** – Even though you don't know exactly how long you will live, it is better to err on the side of caution. It is far better to set savings and withdrawal targets for a long life expectancy than to underestimate your life span and, thus, outlive your investment funds and savings.
- 8. Unrealistic planning** – Draft a budget that is both realistic and has some cushion in it for unexpected expenses, such as major medical and home repairs.
- 9. Counting on continued work after retirement** – While our recent client survey showed that many of you plan to work at least part time while retired, just remember that work opportunities after retirement are usually at a much lower pay rate than you were used to before retirement. If you plan to work, be sure that you will be able to find suitable employment, or, better yet, consider holding on to your current job a while longer.
- 10. Underestimating inflation** – Inflation can have a profound effect on purchasing power during retirement. For example,

according to the U.S. Bureau of Labor and Statistics, it costs \$1,584 today to buy the same basic goods and services that cost only \$1,000 in 1994—that’s an increase of 58.4 percent in only 10 years, or 4.7 percent a year on a compound basis!

- 11. Choosing to age in place** – Most people prefer to remain in their homes during retirement. However, make sure that you aren’t ignoring changes that are occurring around you. Will your neighborhood and community continue to suit you later? Does your home have multiple stories, or high utility or maintenance costs? For many people, downsizing to a smaller, more efficient house can have a big positive impact on their retirement living costs.
- 12. Supporting your adult children** – Unless you are certain that you can afford your own retirement, don’t do it. Remember that once you begin to help adult children financially, they will continue to come to you first in the future.
- 13. Lowballing eldercare costs** – These costs should be included in your retirement projection in order to be sure that you have enough money for yourself throughout retirement.
- 14. Relying too heavily on “rules of thumb”** – Many people tell me they can spend 4 percent of their retirement savings each year, without the risk of running out of money later. They need to understand the research behind these numbers. For example, the oft-cited study they are referring to was done in the early 1990s by William Bengen, a well-known financial advisor and MIT grad who had a background in aeronautics and astronautics. In making this projection, Bengen assumed a portfolio that maintained a constant investment allocation of 60 percent stocks and 40 percent bonds. I have seen people relying on this rule, even though their portfolio was invested very differently. You don’t need to be a rocket scientist to see the danger of relying exclusively on this single rule of thumb.
- 15. Getting advice from the wrong people** – Even though your friends and relatives may have your best interests at heart, they

are likely not expert at many of the issues involved in a successful retirement. Even someone who has experienced retirement has probably done it only one time. As an advisor specializing in retirement, I have analyzed and reviewed hundreds of retirees' financial situations. Every situation is different. What is good for one retiree may not be best for another. This also applies to getting information from the broadcast and print media. That type of generic financial advice may, or may not, be applicable to your unique situation.

Investing mistakes

- 16. Owning too much company stock** – There is little reward for owning too much of the stock of a single company. Don't have more than 10 percent of your portfolio invested in any single company's stock. This includes the stock of any single company in or outside your 401(k) plan. Many people have their 401(k) invested primarily in the stock of their employer. They are risking their employment and their investments all in one company.
- 17. Investing too conservatively** – Don't be overly conservative with your funds, or you will be unlikely to get the growth that you need to offset inflation over a long period of time.
- 18. Investing too aggressively** – Be sure not to invest too much in risk assets as you approach retirement, or in the early years of retirement. If we experience a large drop in the stock market just as you enter retirement, it could be devastating to your portfolio. Also, avoid investing in fads and "hot" stocks. Rather, consider proven, academically vetted strategies.
- 19. Borrowing from your 401(k)** – Never borrow from your 401(k). You lose the investment returns and the compounding that you should be getting.
- 20. Putting money into variable annuities** – Variable annuities—mutual funds within an insurance company wrapper—carry extra layers of fees and expenses that eat into your investment returns. Also, when you make withdrawals from the annuity, all

of the gains are taxed as ordinary income. Also, these annuities have surrender penalties during the first few years. These costly penalties are designed to keep you from taking your money out and can force retirees to stay invested in a poorly performing annuity contract.

- 21. Avoiding stocks** – You are very unlikely to achieve the growth needed to outpace inflation without holding at least a portion of your portfolio in stocks, or even better, stock mutual funds.
- 22. Not planning sufficiently for medical expenses** – Medical care is not cheap. Be sure to include medical cost projections in your budget. These costs can be estimated by reviewing your Medicare and Medicare supplement premiums, as well as the deductible amounts that will be your responsibility.
- 23. Betting on a track record** – Do not think that the recent past is always a good guide to the future. The financial tide can turn swiftly and without warning. Our emotions may tell us that the recent past is a good guide to the future, but research shows again and again that this is not the case. Consider the decade of the 1990s, when the S&P 500 index compounded at 18.2 percent per year—about twice its long-term average of about 8 percent. Surveys conducted in the heady times of 1999 and 2000 indicated that investors expected to earn returns of 20 to 30 percent *A YEAR*, on average, over the next 10 years! That’s a classic case of “recency bias.” As many investors learned the hard way, the law of averages (i.e., regression to the mean) kicked in and they experienced a rough reality check each time their financial statement arrived in the mail.
- 24. Investing in something that you don’t understand** – Do not get talked into investments that you don’t understand. Ever! Often these investments carry high costs (to pay commissions) and are not as great as they are portrayed. Variable annuities often have high fees that chew up your returns, as well as surrender penalties that are designed to lock you in for years. Reverse mortgages are another potential strategy, but be sure

that you understand exactly what you are getting into before making this commitment. Warren Buffet avoided the entire technology stock bubble by paying attention to this one rule.

- 25. Allowing someone to sell you an investment that is not in your best interests** – Sales commissions are a highly effective motivational tool. Most annuities and high-risk investments pay substantial commissions to the salesperson. The desire to get this income can lead to overly aggressive sales tactics and to recommending a product even when it is not the best solution. The old joke is “When you only sell hammers, everything begins to look like a nail.” Never invest in something just because someone selling it wants you to.

Conclusion

These are just a few of the most common mistakes that I have witnessed over the years. It is vital to appreciate the importance of flexibility. No matter how much planning we do, the future may hold some surprises for us. However, by updating the plan regularly, we are able to make minor adjustments in response to the surprises, as opposed to being forced to make major adjustments. Your planning and investment strategy should be flexible enough to make adjustments during the coming years.

Key Takeaways

- Resist the urge to retire just because you have reached a certain age. Everyone ages differently—physically, emotionally and cognitively.
- Most retirement mistakes fall into one of two categories: retiring too soon or not having your financial ducks in a row.
- Flexibility is critical for a happy retirement. No matter how carefully we plan, the future will hold surprises. Your planning and investment strategy should be flexible enough to make adjustments during the coming years.

Chapter 12

HOW DO I PLAN AHEAD FOR MEDICAL AND LTC COSTS?

IT IS EXTREMELY IMPORTANT NOT TO OVERLOOK, or underestimate, the amount of money that you will be spending on medical insurance and health care during retirement. The two primary areas to consider are (1) medical insurance and (2) the potential cost of long-term care.

For most retirees, Medicare is the primary source of medical insurance. To be eligible for Medicare, you must be age 65, or you must have been disabled for at least 24 months. When you turn age 65, you have seven months to get signed up for Medicare. If you fail to sign up within seven months, then you must wait until the next open enrollment period, which is January 1 through March 31 of each calendar year.

There are two parts to Medicare, Part A and Part B.

Part A covers services such as lab tests, surgeries and doctor visits. It also covers nursing home care for a limited amount of time following a stay in the hospital. If you are eligible for Social Security benefits, then Medicare Part A does not cost you anything.

Part B covers things like ambulance services, durable medical equipment and some prescription drugs. If you are collecting Social Security benefits, the Part B premium is deducted from your Social Security benefit each month. For 2015, your Part B premium costs \$104.90 per month.

There are two additional parts to the Medicare equation that are used to coordinate benefits between Medicare and private insurance companies. These are not part of Medicare, but rather are purchased from private insurance companies.

Part C is sometimes called *Medicare Advantage*. It refers to supplemental coverage that fills some of the Medicare coverage gaps, such as deductibles and out-of-pocket expenses.

Part D is prescription drug coverage. Like Part C, it is also sold by private insurance companies and helps pay for drugs that Medicare does not cover. Prescription drug coverage varies from company to company. The best way to select a Part D policy is to review each policy to determine whether each particular policy will pay for the prescription drugs that you normally take.

For more information about Medicare, go to www.medicare.gov.

The other area of retirement healthcare that should not be overlooked is the potential cost of long-term care. Most long-term care is not medical care, but rather assistance with activities of daily living (ADLs), such as bathing, dressing and eating. This can include home healthcare or inpatient nursing home expenses. Medicare covers inpatient nursing home care for only up to 100 days for rehabilitation following a hospital stay. Medicare offers no coverage for home healthcare.

Other areas of assistance are called Instrumental Activities of Daily Living (IADLs), which include housework, cooking, shopping and responding to things like home fire alarms. Someone living alone is most likely to need help in each of these areas. Unfortunately, these services are not covered by Medicare either. In the past few years, we have seen many IADLs provided by local home care companies. These services cost money, but they're far less expensive than inpatient care.

According to the U.S. Department of Health and Human Services (www.longtermcare.gov), about 80 percent of care at home is provided by unpaid family members or friends. On average, these people spend about 20 hours per week on caregiving.

When it comes to long-term care, the big decision is whether to buy insurance or to pay for the care yourself if you need it. Long-term care insurance has been around for quite some time, but it can be

very difficult to determine whether you should purchase it. During the 1980s and 1990s, the insurance companies badly underestimated the cost of future claims when they were pricing their policies. As a result, prices on policies that were written years ago have gone up dramatically. There is a big risk in buying a policy whose prices could escalate in only a few years, to a point at which you can no longer afford it.

LTC rule of thumb

A typical rule of thumb is that you should consider long-term care insurance if you have between \$200,000 and \$2 million of assets. Here's the rationale: With less than \$200,000 of assets, once you spend almost all of your money, Medicaid will step in and take up the payments. The amount of assets and income that you can have and still be able to receive Medicaid varies from state to state. If you have over \$2 million in assets, then you can probably afford to self-insure the risk of needing long-term care. The purpose of long-term care insurance is to protect your estate and to ensure that you have something left to pass on to your heirs. The problem with "rules of thumb" is that they're very general and every long-term care situation is different. A thorough analysis of each family's situation should be completed when making the decision about whether to pay for long-term care insurance.

Insurance company statistics paint a pretty bleak picture, with estimates that up to 70 percent of Americans reaching age 65 will need some sort of long-term care. However, a **recent paper** (<http://crr.bc.edu/working-papers/new-evidence-on-the-risk-of-requiring-long-term-care/>) from the **Center for Retirement Research** (<http://crr.bc.edu>) is quite a bit less alarming. CRR's research indicates that a large number of people will need some long-term care, but only a small portion will remain there for a long period of time. The average stay for a man is less than a year and for a woman it is a year and a half.

There are several variables involved in the pricing of a long-term care insurance policy. These include:

1. Daily benefit amount – This is the amount the policy pays per day of care.

2. Inflation factor – This increases your daily benefit each year by 3 percent to 5 percent to account for inflation.
3. Elimination period – This is the number of days that you need care before the policy begins to pay any benefits.
4. Benefit period – This is how long payments will continue.

To decide on the daily benefit amount, check local costs and consider insuring only part of this amount. Since nursing home costs vary widely from one part of the country to another, check local prices. One approach is to buy enough long-term care insurance to provide a cushion. Do not try to insure the entire risk.

Many people go with the maximum inflation factor, as nursing home costs have been increasing about 5 percent per year. However, the costs for in-home care have been increasing by only about 2 percent per year.

Most people buy a policy with a waiting period of 90 to 100 days. Plan on paying your long-term care costs out of pocket during this period.

The most popular benefit period is three years. For the majority of people, this will be long enough.

One new option for a married couple is to purchase a split policy. This will pay for a certain number of years between the two of you. For example, a six-year policy would cover up to six years for the couple. If one spouse did not use any of this policy, the entire six years would be available for the second spouse when that person needs it.

Statistically, women are more likely to outlive men of the same age. The wife is more likely to outlive the husband. In that case, the husband has his wife to assist him at home, which costs very little. The couple may need to modify their house to make it more elder-friendly, and they may need some outside assistance to some degree. These things do not cost nearly as much money as in-patient long-term care does. Then by the time the wife needs assistance, there is no one there to help her. She may be able to utilize home care and assistance services for quite some time before needing in-patient care. If the time comes that the wife needs in-patient care, she will no longer need her house. It can then possibly be sold for enough to cover several

years of care.

For our clients, we examine the likelihood of needing LTC coverage and balance that against their ability to self-insure against this risk. I am very concerned with the fact that premiums on existing policies have increased significantly over the past few years. The risk is that you buy long-term care coverage and then, sometime before you need it, the cost goes up so much that you can no longer justify paying for it. For someone living on their investment income, the result could be loss of coverage coupled with less money in their investment accounts. For example, a couple could take the money they would have used to buy an LTC insurance policy and instead invest in traditional stocks or funds. Instead of buying a policy, if they had invested the premium cost of \$7,500 per year and it earned 8 percent annually, they would have \$343,214 in their account at the end of 20 years. Certainly, \$343,214 will pay for quite a few years of care!

William Shakespeare famously said, "People usually are the happiest at home." Some people make a conscious decision (and design a plan) to remain in their homes as long as possible. There are a number of agencies and private companies that provide services designed to help people do that. This strategy is called "aging in place."

Some key ingredients to aging in place include:

1. From an emotional standpoint, people become very attached to their homes. Their home has been a social center for family and friends, a source of pride of ownership, a feeling of being "rooted" in the community. It's tough to give up that sense of well-being at any age.
2. From a medical standpoint, the elderly are less likely to pick up an infection at home than they are at an institution.
3. Relocating can be very stressful for an older adult. This can trigger sleep disorders, confusion, depression, withdrawal and even death.
4. Meeting the challenges of living at home may actually support

a healthy aging brain, with activities such as housecleaning, laundry, gardening, caring for pets, riding the bus or driving.

5. By remaining in one's neighborhood, one is exposed to multi-generational social networks. These networks tend to keep the brain stimulated.
6. Finally, staying in one's home avoids the high cost of institutional care.

In order to age in place for as long as possible, it is important that you design or modify your home accordingly. Some considerations include living on one floor level, easy maintenance, appliances and countertops at comfortable heights, and no-threshold showers. For more information regarding home modifications, please see www.aginginplace.com.

There are many community services designed to help people remain in their homes for as long as possible. As the baby boomers age and desire elder-care services, we will see more providers enter the marketplace. Hopefully, this competition will lead to lower prices for such services. Many of the services needed are not medical in nature. They include cooking, cleaning, laundry, grocery shopping and other common, everyday errands.

Another development that is designed to help people age in place is the introduction of "smart homes." These homes, developed by both the Georgia Institute of Technology and the University of Florida, address many of the issues faced by older adults living alone. Smart homes include technology that understands human hand signals. This makes it easier for the elderly to open doors, close blinds, and turn lights on and off. Smart homes also have monitoring systems that can inform family members if an older relative's activities aren't normal, which can alert them to potential medical issues.

Conclusion

Due to a wide range of demographic and technological shifts, today's elderly have more options than seniors of previous generations did. As with most financial decisions, it is vitally important to look at each unique situation and not simply apply so-called rules of thumb.

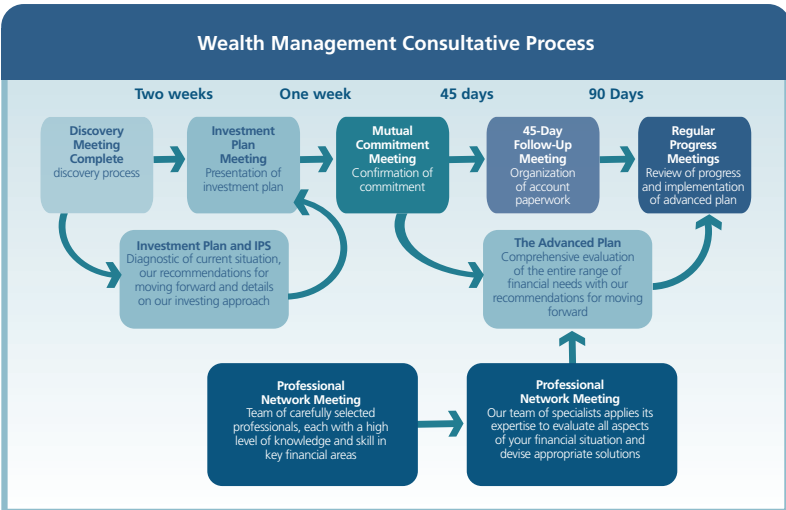
Key Takeaways

- Most long-term care is not medical care, but rather assistance with activities of daily living, such as bathing, dressing and eating.
- Medicare is the primary source of medical insurance for most retirees, but it only covers inpatient nursing home care for up to 100 days—for rehab following a hospital stay—and provides no coverage for home healthcare.
- Research shows that 80 percent of care at home is provided by unpaid family members or friends who devote about 20 hours per week to caring for family members. This is not a sustainable solution for the long term.
- When it comes to long-term care, the big decision is whether to buy insurance or to pay for the care yourself if you need it. LTC insurance is best for those with \$200,000 to \$2 million in assets.

Chapter 13

HOW DOES THE RETIREMENT PLANNING PROCESS WORK?

AT RETIREMENT ADVISORS, INC. (www.plantoretire.com), we use a consultative process to deliver retirement income planning to our clients, which looks like this:



Our process begins with a **Discovery Meeting**. The goal of this meeting is twofold:

1. To learn what is important to you, both personally and professionally.
2. To determine whether we are the right firm to help you reach

your financial goals. We only work with people for whom we can have a major impact. If we are not the best firm for you, we will direct you to someone who we believe is a better fit for you.

During the discovery meeting, we develop a “total client profile” that covers the seven key areas of your life shown below:

1. Values
2. Goals
3. Relationships
4. Assets
5. Advisors
6. Process
7. Interests

Next is the **Investment Plan Meeting**, which takes place two weeks after the discovery meeting. At this meeting, a detailed, actionable investment plan is presented for your review. The investment plan serves as a personal road map that maximizes the probability of achieving everything that is financially important to you. Also included in this investment plan is a detailed retirement income analysis. This analysis includes customized projections of your inflation-adjusted income, your investment balances, your income taxes and a recommended investment mix.

One week after the investment plan meeting, we schedule the **Mutual Commitment Meeting**. At this meeting, our new client process begins and we agree upon investment details together. It is not until this meeting that you even have the option of coming aboard as a client.

Forty-five days after the mutual commitment meeting, we meet again to help you review all of the investment correspondence you have received. This is organized into a notebook for you for easy reference later. During this meeting we also review the statements and reports that you have received and answer any questions related to them.

Finally, we have regular progress meetings with you—typically

quarterly—in order to present and then execute your comprehensive wealth management plan. This advanced plan covers four key areas of your financial life beyond just investments. These key areas include:

1. **Wealth enhancement**, which is designed to produce the best possible investment returns for you that are consistent with your level of risk tolerance while minimizing the tax impact on those returns.
2. **Wealth protection**, which is aimed at protecting your wealth against creditors, lawsuits, children's spouses and/or ex-spouses. It is also geared toward protecting your assets from catastrophic losses.
3. **Wealth transfer**, which intends to help pass your assets to succeeding generations in the most tax-efficient manner possible.
4. **Charitable giving**, which helps fulfill any desire you may have toward funding charitable causes.

This advanced planning is completed with the help of my expert team. This team consists of an estate attorney, a CPA, and a property and casualty insurance expert. We also coordinate with your existing professionals, as needed.

Conclusion

The retirement income analysis is updated annually, or whenever there is a **significant** change in your life. By constantly monitoring retirement investments and retirement spending, we are able to detect issues before they become major. This analysis also serves as a platform to assist in decision making when considering changes such as moving to another state or downsizing your home.

WEALTH MANAGEMENT FORMULA

$$WM = IC + AP + RM$$

WM (Wealth Management) =
IC
 (Investment Consulting)
 +
AP
 (Advanced Planning)
 +
RM
 (Relationship Management)

$$AP = WE + WT + WP + CG$$

AP (Advanced Planning) =
WE
 (Wealth Enhancement:
 tax mitigation and
 cash-flow planning)
 +
WT
 (Wealth Transfer: transferring wealth
 effectively; may not be within a family)
 +
WP
 (Wealth Protection:
 risk mitigation, legal structures and
 transferring to insurance company)
 +
CG
 (Charitable Giving: maximizing
 charitable impact)

$$IC = \text{INVESTMENT CONSULTING}$$

Management of all investment elements to maximize the probability of clients achieving all that is important to them.

- Portfolio performance analysis
- Risk evaluation
- Asset allocation
- Assessment of impact of costs
- Assessment of impact of taxes
- Investment policy statement

$$RM = CRM + PNRM$$

RM (Relationship Management) =
CRM
 (Client Relationship Management)
 +
PNRM
 (Professional Network Relationship Management)

ABOUT STEPHEN HAIDT

STEPHEN HAIDT, CFP®, has over 25 years of experience providing investment management and financial planning advice. He is the founder of Retirement Advisors, Inc. (RAI), an independent, fee-only financial planning firm that specializes in investment and retirement income planning. Retirement Advisors, Inc. offers financial planning and investment management services on a fee-only basis. This eliminates the conflicts of interest that can result from both giving advice to clients and selling products to them on a commission basis.

A graduate of the University of South Alabama with a Bachelor of Science in business administration, Mr. Haidt is authorized to use the Certified Financial Planner (CFP®) designation by the International Board of Standards and Practices of Certified Financial Planners (IBCFP). To qualify, an individual must meet the experience and ethical requirements of the IBCFP and successfully complete coursework and pass examinations in the following areas:

1. The Financial Planning Process
2. Risk Management (insurance)
3. Investments
4. Tax Planning and Management
5. Retirement Planning and Employee Benefits
6. Estate Planning

Mr. Haidt is a Registered Investment Advisor (RIA) representative in Alabama, Mississippi, Louisiana and Texas. He is also authorized to provide services to the residents of most other states. He is a member of the National Association of Personal Financial Advisors (NAPFA). Only financial advisors who provide comprehensive planning services and receive no commissions can become members. He has taught "Retirement Planning in the '90s" at the University of South Alabama and is an experienced presenter of financial, retirement and investment planning workshops to the employees of many major corporations and U.S. government employees.

He may be reached at shaidt@plantoretire.com or (251) 344-0707.

ABOUT RETIREMENT ADVISORS, INC.

RETIREMENT ADVISORS, INC. (www.plantoretire.com), was founded in Mobile, Alabama, by Stephen Haidt, CFP®, in 1996 as an independent, fee-only financial planning firm. Stephen realized early on that most people were being vastly underserved by the financial services industry, which was focused primarily on product sales. The firm's goal has always been to provide fiduciary financial planning and investment advisory services that are focused on helping people have a successful retirement.

Retirement Advisors, Inc. has evolved into a family business with the addition of Matthew and Daniel Haidt. The firm remains headquartered in Mobile. More than one dozen early clients have been with us for at least 16 years.

Retirement Advisors, Inc., operates as an ensemble practice, which means our advisors work together for the benefit of all our clients, as opposed to each advisor having his or her own clients. Our independence allows us to do what is best for our clients. Since we are fee-only, we have no reason to recommend anything other than the products, services and solutions that are truly the best fit for each individual client. As fiduciary advisors, we **must** do what is best for our clients.

Our evidence-based approach to investing is based on an abundance of academic research.

**Stephen Haidt****Daniel Haidt****Matthew Haidt**

We offer a second-opinion service that is designed to help successful retirees and pre-retirees make informed decisions about their money, considering all the complexity and volatility in today's financial markets. If you are in good shape with your current provider, we will let you know that as part of our second-opinion service. Or if we think it would be beneficial for you to consider working with us, then we will begin the process. To claim your second-opinion consultation, just go to www.plantoretire.com and fill out our short information request form. We will contact you promptly to schedule an appointment at your convenience. There is no obligation or opportunity to commit to our services during this initial second-opinion meeting.

Recommended Reading List

Most people should get professional help for something as important as their financial security. However, before you meet with a professional, it makes sense to learn as much as possible in order to equip yourself to make the best possible decisions you can. The following are books that I have read and consider recommended reading for RAI clients, as well as their friends, family and colleagues:

- *The Investment Answer* by Daniel Goldie and Gordon Murray
- *Winning the Loser's Game* by Charles Ellis
- *The Elements of Investing* by Burton Malkiel and Charles Ellis
- *Asset Allocation – Balancing Financial Risk* by Roger Gibson
- *A Random Walk Down Wall Street* by Burton Malkiel