



The Retirement Planning Process

10 Years of More, Then What?

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**My disclosure is in the Final Program
Book and in the AAOS database.**

I have no potential conflicts with this presentation.

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"The question isn't at what age I want to retire, it's at what income."

George Foreman

Purpose

- To Educate and Inform
- To Cause You to Think
- To Give You a List to Help You Improve Your Retirement
- The goal today is not to answer all of your questions but to make sure you know some of the right questions and to identify to whom they should be addressed.

Websites

- www.hindsfg.com
- www.socialsecurity.gov
- Mobile App **Cynthia Hinds AAOS 2015 Presentation**

The List

- Do a Budget
- Review Retirement Plan Design
- Review Your Investment Strategy
- Review Estate Plan
- Review Life Insurance

- Review Beneficiary Designations



"Don't simply retire from something; have something to retire to."

Harry Emerson Fosdick



“The world of tomorrow belongs to the person who has the vision today.”

Robert Schuller

Agenda

- Trends
- Determining Retirement Income Needs
- Retirement Plan Design
- Income and Investment Strategies
- Insurance
- College Education Funding
- Working with An Advisor (s)

Trends

- Complex Exit Strategies
- Living Longer
- Investment Returns are Lower
- Higher Health Care / Insurance Costs
- Taxes will be Higher
- Inflation
- Social Security

Trends: What does this mean?

- More Careful Planning
- Starting Early
- Possibly Postpone Retirement
- Realistic Expectations

Taxes

Income.....	10% - 39.6%
Capital Gains.....	0 – 20%
Estate.....	Up to 40%
IRD.....	10% - 39.6%
Trust (over \$12,000).....	39% + 3.8%

EXTRAS:

.9% FICA

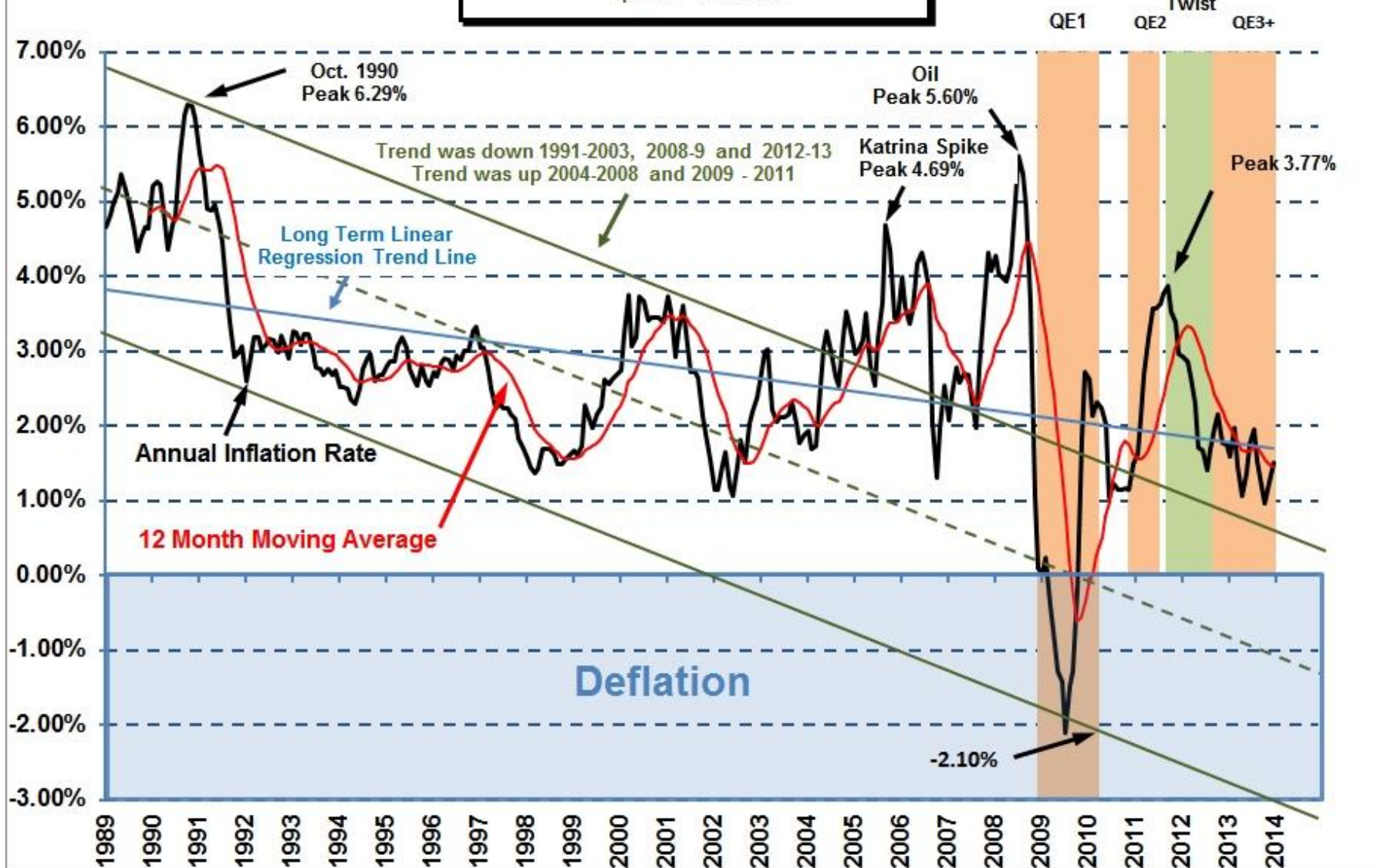
3.8% (over \$200k/\$250k)

Annual Inflation Rate

© 2014 www.InflationData.com

Prepared By Timothy McMahon

Updated 1/16/2014



Impact of Inflation

- Average 1913 – 2013 3.21% Prior to 2000, 4.5%
- Trending Toward 3%
- Amount of income needed will increase by 50% in eight-twelve years

Social Security Issues that Affect You

- Single \$24,000, \$31,700, \$41,100
- Married Additional 50% - 100%
- Benefits are offset by earned income until full retirement
- Benefits reduced at 62 (75%) enhanced after 65 (132% at 70)
- Not likely to change for recipients over 55

Social Security Issues that Affect You

- WEP (Windfall Elimination Provision)
 - Reduction in benefit based on specific pension income.
- Spousal Benefit
 - Your spouse is eligible for 50% of your benefit if theirs is less than that amount.
 - Survivor Benefit is 100% if theirs is less than that amount

How Much Retirement Income Do You Need?

- Rule of Thumb
 - 70% of Pre-Retirement Income
- Considerations
 - Lifestyle / Life Expectancy
 - Mortgage
- Factors
 - Budget: Fixed vs. Variable Expense
 - Inflation and Taxes
 - Investment Strategy
 - Estate Plan



“A big part of financial freedom is having your heart and mind free from worry about the what-ifs of life”

Suze Orman

How to get to retirement?

- When are you starting and with how much?
- When do you want to retire? How much income will you need?
- What rate do you expect to earn after inflation?
- What other sources of income might you have?
- Social Security
- Spouse Social Security
- Pension: What plan design are you going to need?

Retirement Plan Comparison

- Defined Benefit
 - Contribution Limit, Up to \$210,000 but complicated, expensive and long A defined benefit plan is like structuring a pension for yourself. It allows for much higher contribution levels but the amounts are mandatory year over year for at least a number of years.
 - Also higher costs to setup and annually administer
- Defined Contribution (Employee Contribution Limits)
 - \$17,500 or 100% of participant's Salary (catch up contribution of \$5,000 over age 50) Plus up to 25% PSP for employer

Retirement Plan Comparison

- Defined Contribution (Either 401k or SEP)
 - 401k allows you and potentially spouse to defer first \$17,500 of compensation plus 25% of salary up to \$52,000 can save another \$5,000 each if over age 50
 - A SEP can also save \$52,000, but only at the 25% level
- You have to have more taxable compensation to get to the maximum. Not really good for spouse.
- IRA – Roth, or After tax to traditional IRA Contribution
 - Contribution Limits
 - IRA - \$5,500 to age 50 and \$6,500 age 50 and above
- With proper planning may be able to create tax free retirement accounts

Tax Deferred Accumulation Life Time Income

- After tax contribution
- Tax Deferred Accumulation
- Variable or Fixed Income
- No contribution limits
- “Hybrid” Income

How to Structure a Retirement Investment Portfolio

- Assess Income Needs and Risk Tolerance
- Project how much income can be generated from existing portfolio
- Allocate income to asset type to determine character of Income
 - Guaranteed, Fixed, Income Capital Gains

How to Structure a Retirement Investment Portfolio

To create net after tax \$100,000 Cash Flow

Combined Federal and State Tax Bracket: 35%

- Retirement Plan, 5% \$3,076,000
- Capital Gain Portfolio, 5% \$2,666,000
- Tax Free Portfolio, 4% \$2,500,000

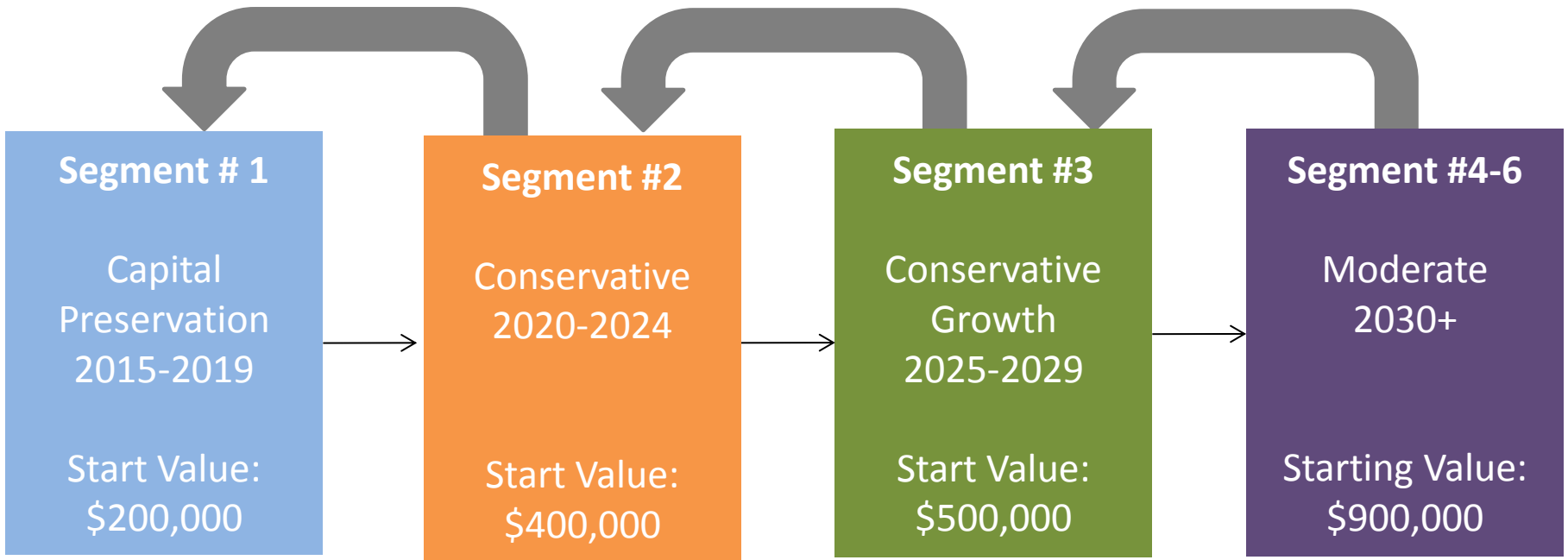
How to Structure a Retirement Investment Portfolio

Social Security:	\$3,000 / month
Defined Benefit Pension (5%)	\$2,083 / \$1,354 / month
Defined Contribution (5%)	\$4,166 / \$2,708 / month
Other (5%)	\$2,083 / \$1,718 / month
Capital Gain Portfolio (5%)	\$2,083 / \$1,770 / month
Tax Free Portfolio (4%)	\$1,666 / \$1,666 / month
Total	\$15,081 / \$12,216

Time Segmented Strategy

Hypothetical Investment Strategy

\$2,000,000 Investment Portfolio



Time Segmented Strategy

- **Segment 1: Capital Preservation**
 - Savings, CD's, Short Term Bonds
- **Segment 2: Conservative**
 - Fixed Income Portfolio
- **Segment 3: Moderate**
 - 40/60 Allocation of Equities to Fixed Income
- **Segment 4: Moderate Growth**
 - 60/40 – 80/20 Allocation Range of Equities to Fixed Income



“There are some who start their retirement long before they stop working.”

Robert Half

The Secret

- Reserves
- Diversification
- Blended Tax Rate
- System
- Discipline

***Do this two-five years before retirement.
Review annually.***

IRS Rules and Distribution Planning

IRS Rules for Retirement Plan Distributions

- Don't Pay Out Too Early (59 ½)
 - 10% Penalty Tax on Early Withdrawal
- Don't Pay Out Too Late (70 ½)
 - 50% Excise Tax on Failure to Take Minimum Withdrawal
- Don't Pay Out Too Little (RMD)
 - 50% Excise Tax on Failure to Take Minimum Withdrawal
- Don't Have Any Left (IRD and Estate Tax)
 - 50-80% Tax On Accumulated Assets

Pre 59 ½: Section 72T

- Annual Payments
- 5 Years or 59 ½, Whichever is Longer
- Based on Life Expectancy
- Reasonable “Rate of Return”
 - Life Expectancy
 - Amortization
 - Annuitization

*Substantially Equal
Periodic Payments
A Way to Avoid the
10% Penalty Tax*

Pre 59 ½: A Way to Avoid the 10% Penalty Tax

- Age 55
- Participation in a Plan
- Separation from Service
- Retirement
- Disability
- Job Change

Distribution Options

- Relevant Points
 - Distribution Taxed as Ordinary Income in Year Received
 - Distributions Taxable at Recipient's Tax Rate
 - Mandatory at Age 70 ½
 - Accounts May Be Combined for Calculation

Spouse as Beneficiary (Free Rein or Reign?)

- Rollover: Postpone Income and Estate Taxes

or

- Annual Life Expectancy Distribution

Can start over with new beneficiaries.

Non-Spousal Beneficiary

- Non-spouse may be designated beneficiary
 - Triggers IRD on lump sum
- Multiple beneficiaries permitted
 - More than one beneficiary
- Split IRA: Can be divided so each beneficiary could use their own life expectancy
 - More than one IRA

Insurance Concepts

- A Risk Management Tool
 - Creates Dollars to Replace Loss of Income/Assets
 - Home Owner's
 - Automobile
 - Disability / Long Term Care
 - Life Insurance

Life Insurance Uses

- Liquidity for Final Expenses
- Tax Relief
- Cost Efficient
- Tax-Preferred
- Continuing Business (Consider Transferring)
- Survivor Income

Insurance Concepts a Unique Financial Tool

- Maximize Use of Your Income and Assets
- Highly Personal
- Should be reviewed regularly and especially when your retire

College Savings (529 Plans)

- Qualified Higher Education Expenses
- Anyone for Anyone
- Any Institution in the US
- Tax Deferred Earnings – Like a Roth IRA
- State Sponsored
- Qualified Withdrawals Tax Free

College Savings (529 Plans)

- Contributions Eligible for Gift Tax Exclusion and Excluded from Estate (\$50,000 Prorated Over 5 Years)
- Donor Retains Control
- Can Change Owner and Beneficiary

Gift and Estate Tax

- Tax is incurred at time of transfer (Life or Death)
- Transfer between spouses are not subject to tax
- Exclusions
 - Annual: \$14,000 Per Donor, Per Donee
 - Lifetime: \$5,000,000
 - Portable to Surviving Spouse

Basic Documents

- Will
- General Power of Attorney
- Medical Power of Attorney
- Living Will
- Trusts

Types of Trusts

- Marital Trust (A Trust)
- Family Trust (B Trust)
- Life Insurance Trust (ILIT)
- Charitable Trust
- Personal Residence Trust
- Offshore Trust

Big Mistake

Naming Estate or Revocable Trust as Beneficiary of Retirement Plans

- Owner Deemed to Have No Beneficiary
- 5 Year Rule Applies
- Joint Life Expectancy Cannot Be Used
- Administrator Cannot Determine Beneficiaries

Estate Tax

Income Tax



“There is only one success – to be able to spend your life in your own way.

Christopher Morley

Working Effectively with a Planner

- What do you need?
- What do they do?
- How do they get compensated?
- What is their process?
- How do they communicate?

What do you need?

- Retirement Planning
- Investment Advice
- Stock Picking
- Insurance Planning
- Comprehensive Financial Planning
- Estate Planning



“Nobody gets to live life backward. Look ahead, that is where your future lies.”

Ann Landers

Understanding Their Business

- What is their primary business?
- Do you look like their typical client?
- Where is their attention focused?
 - Growth vs. Service
- Do they have a Succession plan?



“An investment in knowledge always pays the best interest.”

Benjamin Franklin

What is their Process?


- What is their planning process?
- What is their investment process?
- How do they add value?
- How often are accounts reviewed?
- How deep is the team and their experience?

How are they compensated?

- Hourly (Usually for Planning)
- A Percent of Assets Under Management
- Commissions on the Sale of Product
- Annual Retainer
- Combination of the Above
- It is your right to know. Discuss any potential conflicts of interest.

The List...Revisited

- Do a Budget
- Design Your Investment Strategy
- Review Title on Assets
- Review Beneficiary Designations (Contingent)
- Review Retirement Plan
- Review Life Insurance
- Review Estate Plan / Power of Attorney

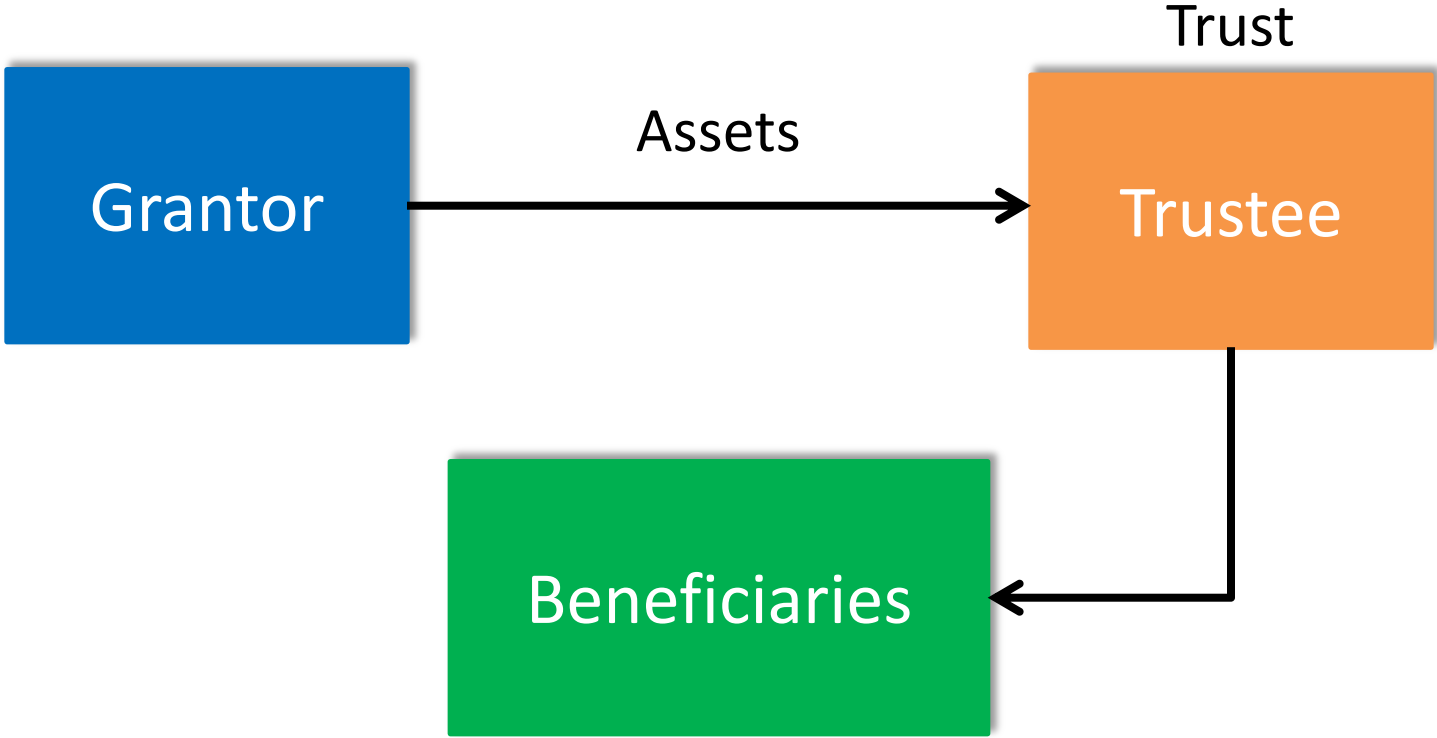


“I find it fascinating that most people plan their vacations with better care than they do their lives.”

Jim Rohn

Ultimate Distribution Planning

A Matter of Trust



Types of Trusts

- Revocable
- Irrevocable

To Trust or Not to Trust

Pros

- Greater Control
- Creditor Protection
- Special Needs
- Second Marriage
- Spend Thrift Concerns

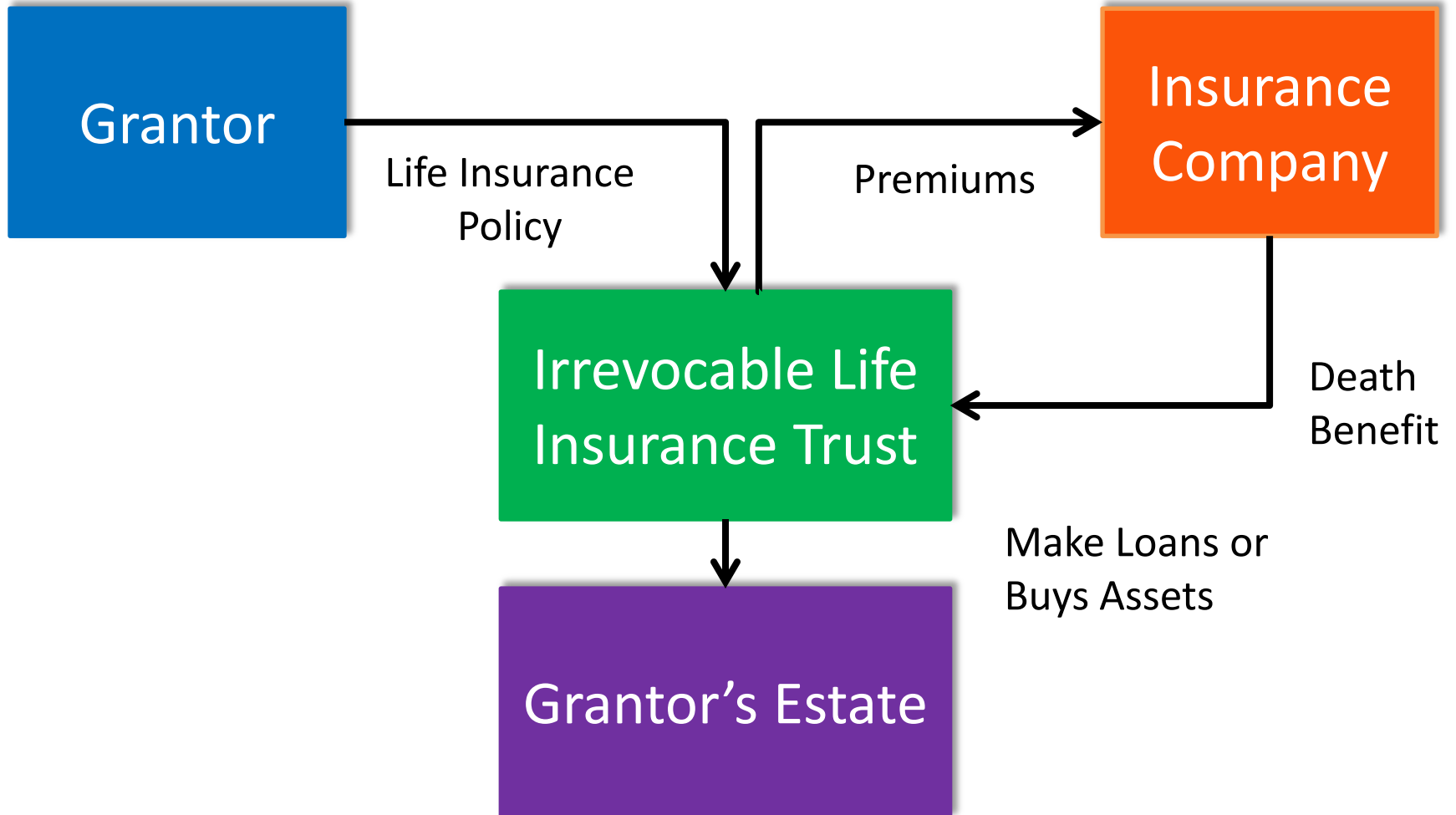
Cons

- Trust Must Remain Open for LE of All Beneficiaries
- Administrative Cost
- Must Be a See Through Trust
- Prevents Stretch Option
- Taxes

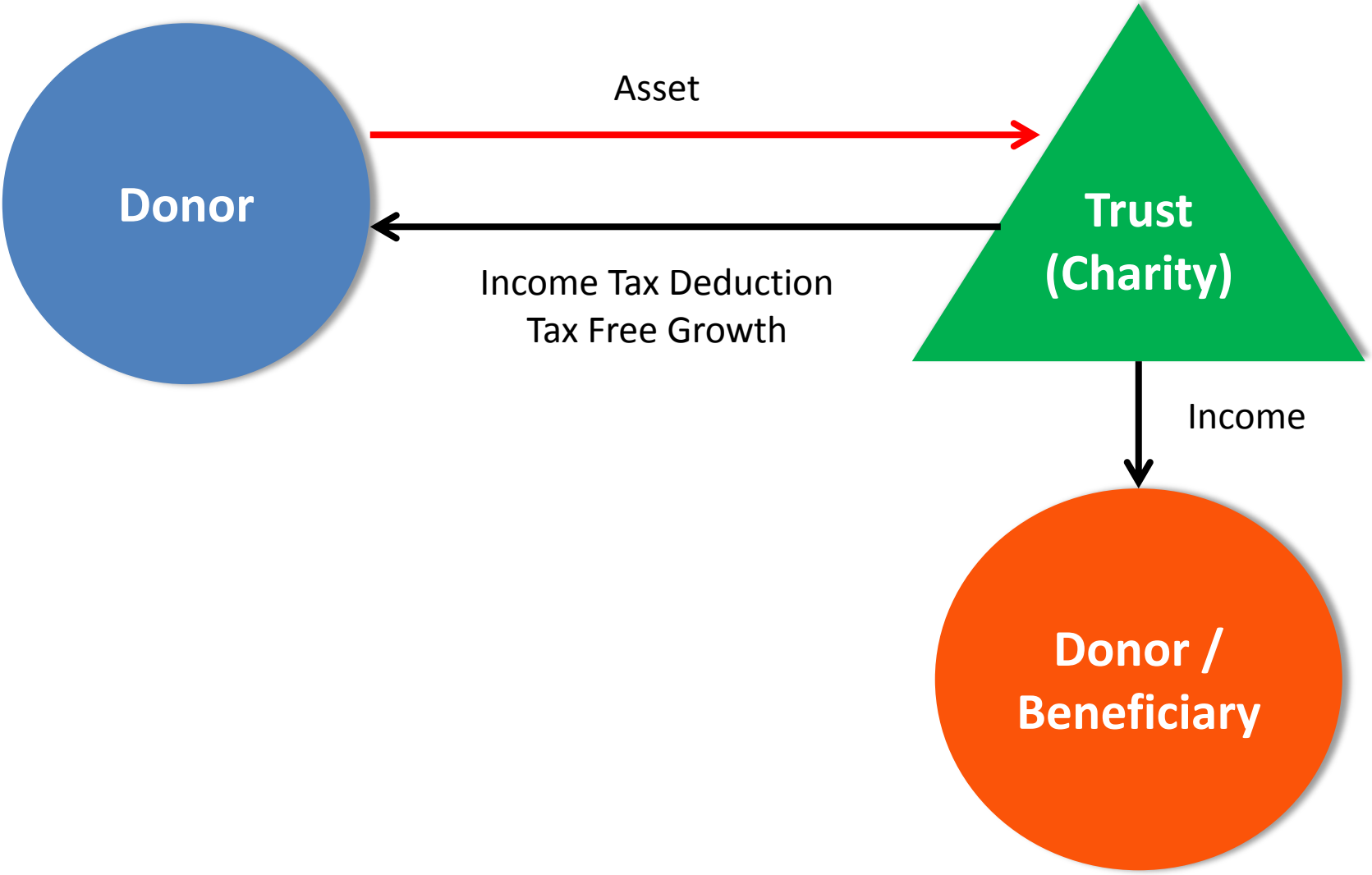
Marital / Family Trust

- Marital
 - Full, Discretionary Access
 - No Estate Tax at Time of Transfer
- Family
 - Spouse has Restricted Access
 - Qualifies for \$5,000,000 Exclusion

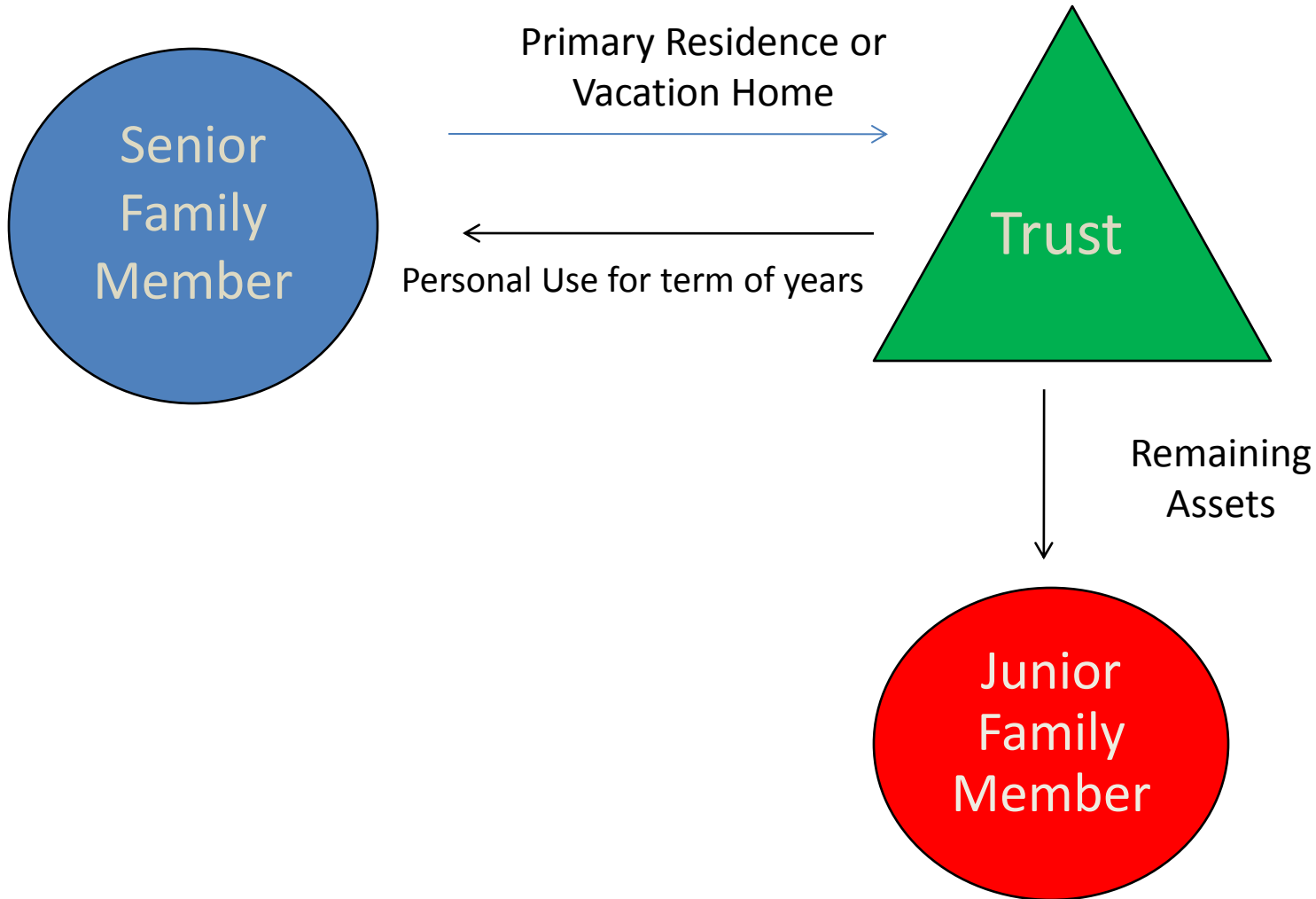
How the ILIT Works



Charitable Trust



Qualified Personal Residence Trust

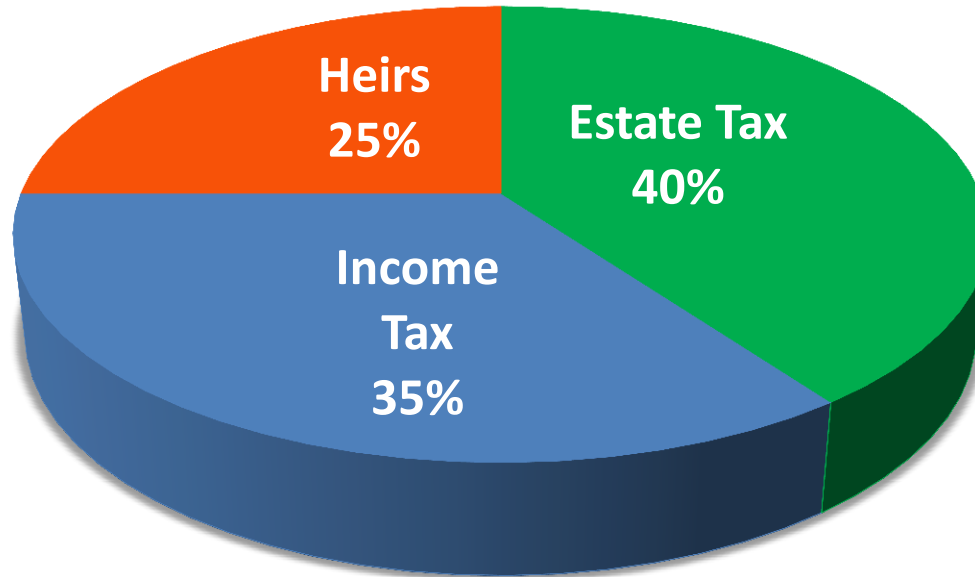


QPRT Example

- Grantor, age 60 transfers \$1,000,000 family “heirloom” vacation home to trust
- Grantor continues to use the home for a period of 15 years
- Grantor’s taxable gift in year one is only \$495,150
- The home transferred to the children free of gift tax in year 15 is worth \$2,078,000 at 5% appreciation

\$2,000,000 Retirement Plan

Tax Breakdown



Trust as Retirement Plan Beneficiary

- Valid Trust
- Only People as Beneficiaries
- Irrevocable
- In existence at time of death
- Copy of Trust documents must be on file with Plan Trustee, including IRA custodian

Big Mistake

- Not Understanding Life Expectancy 19vs28
- Not understanding Inflation
- Underestimating the need for growth
- Assuming all assets have the same time horizon
- Thinking that the President, Congress and the government constitute and investment strategy



**“When you know better
you do better.”**

Maya Angelou

Big Mistake

- Not realizing it's never too late for tough love
- Not properly distinguishing between needs and wants
- Not having a strategy for income in retirement (when to trigger which assets)
- Not understanding the need to coordinate
 - Tax Planning, Investment Planning
 - Retirement Planning and Estate Planning

Joint Tenancy WROS

- Owning a \$1,000,000 Asset (Home) in Joint Tenancy Could Cause a Loss of \$500,000 in Unified Credit
 - Lose Ability to Transfer to Family Trust
- Should be Owned by One or the Other
- To Optimize Estate, Assets Should be Equalized