Special Report – July 2013

<u>Eighteen Mistakes by People In or Near Retirement</u>

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Hello! My name is Steve Geist. I'm a Financial Strategist and I specialize in <u>Safe Retirement Plan Solutions</u> that are tailored with care. More specifically, I help my clients tackle complicated retirement issues and guide them towards easy-to-understand solutions designed to safely preserve and grow their retirement wealth. Now, more than ever, people over the age of 50 are clamoring for education and advice regarding their retirement.

One way I like to teach people about Retirement is to present it as a Puzzle.
And, I like to present the puzzle as containing five primary pieces. And they are:

- Puzzle Piece #1: Safeguarding and preserving your Accumulated Assets
- Puzzle Piece #2: Setting up a lifetime of Guaranteed Income
- Puzzle Piece #3: Addressing Taxes in retirement and beyond
- Puzzle Piece #4: Having proper coverage for Health Care and Long-Term Care
- Puzzle Piece #5: Leaving a Legacy for your loved ones

Today, there are very few guarantees in the investment world. Market volatility is increasing, leaving many Americans more uncertain about their retirement portfolios than ever before. As a result, many people have been forced to scale back their expectations or even delay retirement in order to rebuild their lost savings.

I find it very troubling to see that despite all of economic volatility of the last several yeas, Americans seem to spend more time planning their vacations than they do planning for their financial security in retirement!

A recent study by Northwestern Mutual found that Americans are completely unprepared to live into their 70s, 80s or 90s. The study revealed that only slightly more than half of those surveyed feel financially prepared to live to age 75. Less than half feel financially prepared to live to 85 and only 36% feel prepared to live to age 95.

Now, more than ever, it's imperative that people have a plan in place to help ensure financial stability and security—and help reduce some of the uncertainty surrounding retirement. Everyone, regardless of income level, needs to make financial planning a priority. Whether you do it yourself or seek the help of a financial professional, the last few years have taught us that we must prepare for a whole new normal when it comes to uncertainty and risk.

And this is Especially True for those in the retirement "Red Zone". The Red Zone is a ten-year period of time beginning 5-years before you retire and ending 5-years into retirement. This ten-year red zone is important because the decisions you make during this period regarding your retirement might be the most critical decisions you'll ever make.

The world is a much tougher, and unforgiving place than it was in the past. There are so many things to know today. There are so many rules and regulations to follow; so many pitfalls and traps to fall into. The government wants as much of your nest egg as it can possibly tax away from you! Inflation and the volatile stock market are waiting to gobble up large parts of your estate.

And, let's face it. Who has the time to sit and read about every investment option, tax law & insurance issue that you will confront in retirement? And, even if you had the time to read all this stuff, *<u>would you really understand what it all means</u>?*

So, in this Special Report let's address Eighteen Mistakes by People In or Near Retirement. And, let's see if you're making any (or all) of these mistakes as you enter the Retirement Red Zone.

Mistake #1: Failing to properly acknowledge and confront the common enemies of retirement!

I'm constantly reminding people that they have several enemies that can shatter their retirement dreams. Some of your enemies if you are in or near retirement include:

1. A shorter investment time horizon
2. Investment risk
3. Longevity risk
4. Inflation
5. Taxes
6. Inadequate lifetime income
7. Long-term care expenses
8. Procrastination (not doing anything until it's too late to act).
9. Wall Street propaganda machine

Mistake #2:Assuming You will retire at a specific age

There are many factors that can influence the age at which you retire, some of which are not in your control. An unfortunate layoff, forced early retirement or unseen health issues can cause you to retire earlier than expected.

If you are counting on the last few years of savings to set everything in order, you may find yourself with a lack of adequate lifetime income in retirement. This is why it is absolutely imperative that you begin your retirement planning as soon as you can. Just because you reach 62 or 65 doesn't mean that you should automatically retire. Take the time to do a budget and cash flow analysis and speak with a financial professional to determine when you can and should comfortably retire.

Mistake #3: Listening to and trusting the wrong people

It never ceases to amaze me how many intelligent people take advice about their retirement from people who are completely unqualified to give them this critical advice. You have to be very cautious of who you place your trust in. In other words, you really need to be careful of who you let into your head.

For example; everyone seems to know someone who is a self-proclaimed financial genius. That someone may have done a great job with his or her own retirement, but that doesn't mean he or she knows the correct solutions for your retirement situation. In a worst-case scenario, he or she will know even less than you do.

Another bad idea is to rely on the talking heads from Wall Street who fill the airwaves of TV and the Internet. A recent study to spotlight this issue, conducted by the Consumer Federation of America found that rather than asking the experts, 15% of those surveyed felt they were better off consulting the Internet and TV for information and advice. Both of these sources can be notoriously spotty on truth and accuracy.

That's why I highly recommend that you turn instead to a qualified Financial Professional. You don't need to be wealthy to sit down with a retirement specialist. And, you can't put a value on a qualified professional who can smartly integrate all of your assets, income and expenses into a cohesive plan.

But what if you think you already have a financial professional as your trusted advisor? Well, then I would ask: Are you sure that person is qualified to address all the critical issues of Retirement? Obviously selecting the wrong advisor (or having no advisor at all) can mean the difference between financial security and financial ruin. To find the great ones, you need to know what to ask before you entrust that advisor with your retirement plan. That's why I have prepared a Special Report which presents a list of 12 important areas of concern and some revealing questions to ask a financial professional before you use that person as an advisor. You can request this free report simply by calling me or sending me an email.

SPECIAL REPORT TIMEOUT

In case you belong to a group, club, church, association or any type of organization that invites outside speakers to give interesting talks – please know that as a community service, I would be delighted to speak at your next group meeting. And I would speak on a topic that would be both informative and relevant to Retirement. Just call my office and let me know how I might be of service.

Mistake #4: Not knowing the difference between risk-based investments and safe-money alternatives

After two severe recessions in just the last thirteen years, we know that investing before and during retirement can be a gut-wrenching experience. That's why I urge you to take the time to learn about the basics of investing.

I'm not suggesting you can or should become a financial expert. But a basic understanding of investing is critical in a new normal where we're now largely responsible for ensuring our own retirement security without the help of the government or the company where we worked for so many years.

Learn and understand the investment choices that offer potential gain but also contain the risk that you could loose part or all of your principle. These kinds of investments include stocks, mutual funds, variable annuities, commodities, real estate and even certain types of bonds and bond funds.

Then learn and understand the investment choices that offer safety and guarantees including saving accounts, money market accounts, Treasuries, CDs, fixed annuities and index annuities.

Mistake #5: Allowing yourself to be duped by the Wall Street propaganda machine

There are many issues with the Wall Street propaganda machine that can have a significant negative impact on your retirement. Let me point out twelve of the many issues you may not fully understand or appreciate:

1. The long history of Wall Street's misdeeds
2. The long-term secular cycles of the financial markets
3. How emotions, not fundamentals, often move the financial markets
4. The impact on the financial markets from technical trading
5. Wall Street's 13-year roller coaster ride with your money
6. Wall Street's outdated conventional advice
7. Financial market volatility and its impact on your retirement
8. How Wall Street says you're investing when you're actually speculating
9. Wall Street's view of what's risky versus what's safe
10. Alternatives for your money placement that Wall Street doesn't mention
11. Why we flock to Wall Street investments - The Herd Mentality
12. Wall Street's stranglehold on your Employer-Sponsored Retirement Plan

To help you better understand these critical issues you can order my free Special Report: Don't be duped by the Wall Street Propaganda Machine. Just call my office or send me an email.

Mistake #6: Not preparing a written budget and cash flow to live by both now and during retirement

To my dismay, when first meeting with new clients I discover that very few of them can produce a written monthly budget and annual cash flow that adequately reflects their current lifestyle. And forget about them having prepared a budget they expect to live by in retirement.

Basic Rule: Before retirement, you must determine if you'll have adequate income during Retirement. If you retire, (that is, you stop working) and your income in retirement doesn't meet your living needs then obviously at some point you'll experience retirement failure. In other words, you could be in danger of outliving your assets.

Many pre-retirees believe they will need less than two-thirds of their current annual income in retirement. Many financial planners suggest that you plan to spend 70-80% of your pre-retirement income. But even that could be understated. Yes, some expenses will drop off after you retire. But many other costs will increase in later life such as the cost of health care. All of which means you could be spending just as much, if not more, in retirement as when you were working

So to safely prepare for retirement you must first prepare a budget. That is, determine what your <u>essential</u> spending needs will be. I'm talking about items such as housing, food, utilities and health care. And in order to enjoy retirement you must also account for <u>discretionary</u> expenses such as entertainment, travel, hobbies and charitable giving. Also, remember to factor into your budget large and infrequent expenditures such as a new roof. Be sure to add a 10% cushion to cover the items you have overlooked that could come up unexpectedly. And be sure to properly account for inflation (which few people do).

<u>Mistake #7: Not planning for longevity</u>

In my business, I have a keen interest in understanding the current state of longevity in America. And we should all be very nervous about its implications.

In the past 100 years, we have made great strides in improving human health and increasing life expectancy. Back in the year 1900, the average American lived just past at 40. Today, according to the Centers for Disease Control, average life expectancy in the U.S. has increased to 78.2 years.

Since 1940, we have gained one year of life expectancy every five years. If we keep this pace, by the end of this century, the average American will live to be close to 100 years of age. For couples in their 60s today, there is a 50% chance that one partner will live to the age of 94, and one out of 10 couples will have a partner that lives to be 100 or older.

So, if science medicine and technology will keep you alive much longer, the question becomes: Can you afford it? As longevity increases and the costs associated with living longer skyrocket, we are heading for a retirement crisis in America. The cold hard reality is that the cost of longevity is quickly outpacing most people's ability to pay for it.

<u>Mistake #8: Underestimating future healthcare costs:</u>

The first unknown to consider here is the potential length of your life. If you retire at age 65 and live until age 90, that's 25 years worth of income and expenses you need to account for.

Medicare covers medical expenses starting at age 65. But it only covers certain ones and only after you have paid deductibles and certain copays! Many medical expenses are not covered by Medicare and instead are usually picked up by a Medicare Supplement policy that costs you premium. Or the costs will come out of your pocket to cover such expensive items such as vision and dental care.

And, be weary of an <u>un-planned</u> medical situation that can literally wipe out your family's retirement nest egg.

For example did you know <u>Medicare does not cover the catastrophic costs of long-term care</u>? Medicaid does. But in order to qualify for Medicaid you have to spend down your assets almost to zero before you can qualify.

Don't make the mistake of thinking that the Federal Entitlement Programs of Medicare, Social Security and Medicaid will take complete care of you. Sure, they cover many things but there are still gigantic gaps that if you don't plan for properly, ahead of time, it could become a case of too little too late!

Also, as I hope you realize, these Federal Entitlement Programs are in serious financial jeopardy. This situation will only worsen as 78 million baby boomers begin to retire and tap these programs over the next two decades.

SPECIAL REPORT TIMEOUT

In addition to hosting the Retirement Guy radio show, which I have done now for over three years, I also conduct public educational events. I hold these workshops throughout the Denver area throughout the year. I have made these presentations to thousands of people both in and near retirement over the past several years. If you would like to meet me in person and learn about retirement, in a public setting, then please call or email me with a request for the date, time and location of my next event.

Mistake #9: Starting Social Security too early

Many people want to begin collecting their social security benefits when they first become eligible at age 62. What many people don't realize is that the amount of benefits you receive scales with the age that you begin receiving benefits. The longer you wait to start collecting, the greater your initial annual income. The payments received if you begin collecting at age 70 are nearly double those you would receive if you begin at age 62.

Social Security benefits offer many advantages over other retirement options so great care should be taken to maximize the return.

This is not a “one size fits all” type of program. There are many complex rules that if not followed correctly, can diminish the overall benefits of the program. So, through careful financial planning using the services of a Social Security Benefit Specialist, you can learn how to delay the onset of the benefits and still maximize the rewards of the program.

Mistake #10: Not fully understanding the consequences of putting money into a 401(k)

On this point I’m talking about Wall Street’s greedy motives for employer-sponsored plans (including 401(k), 403(b), 457 and TSP) – all at your expense. And I’m talking about issues such as:

1. Why the 401(k) was never meant to be a retirement plan for you
2. Wall Street’s selfish motives for controlling your money in these plans
3. Your misguided dependence on your 401(k) and why not to consider it your only retirement plan
4. Powerful reasons to roll a 401(k) over to an IRA like:
   a) the fact that most 401(k) s and other company plans have limited risky investment options
   b) how 401(k) plan guidelines can restrict access to your money
   c) how high fees and expenses in your 401(k) can rob you of significant savings in retirement.

To help you better understand each of these important issues you can order my very revealing Special Report: What they never told you about your 401(k). Just call my office or send me an email.

Mistake #11: Choosing the wrong pension option

Let me illustrate this mistake with an example. Ben worked at a company and he retired a few years ago. His wife, Janet, had not worked outside the home and had no pension of her own. When Ben left the company, he was given a range of choices of how to handle his pension payments if he were to die before Janet. The choices were quite confusing and they both decided to take the higher payout for Ben’s life only, counting on Ben’s life insurance to cover Janet if Ben died first.

Ben died just one year after retirement in an accident. Janet was left with no pension income but did get Ben’s life insurance proceeds. Unfortunately, in a matter of only four years, Janet had to get a job because the amount of insurance money was way too little to cover her lifetime needs. What seemed like a fortune in life insurance proceeds at Ben’s death was, in fact, inadequate to fund Janet’s annual living needs for more than four years.

So, what did Ben and Janet do wrong? Well, they made a critical decision from the seat of their pants without having someone prepare a detailed financial projection showing which option would best meet their needs. If Ben and Janet had done this analysis leading to a better solution, Janet would be receiving a much higher income today and have the insurance proceeds to boot!

Now, does this mean that all retirees should take the lower pay outs and have the survivor get some sort of a pay out? Not necessarily. There is no such thing as a “one size fits all” strategy that applies to all retirees. Your situation is as unique as your fingerprints. Just like no two fingerprints are alike, no two retirements are alike.

Mistake #12: Not understanding all the tax rules that affect your investments in retirement and beyond

This is an area of retirement that has huge potential for error. To ignore or mishandle tax issues in retirement can severely impact your nest egg and end up making the IRS your #1 Beneficiary.

Taxes saved today (or in the future) are additional dollars earned. Tax-efficient withdrawals incorporated into your investment strategies will enable you to withdrawal less assets and achieve a similar net income result.

This enables unused assets to accumulate longer and untouched. The tax impact of which accounts you elect to withdraw first and the timing of those withdrawals could make a huge difference in the amount of overall net income taken during retirement and left over for your beneficiaries after you’re gone.

Mistake #13: Having and paying for the wrong kinds of insurance

For some reason, when people retire, many of them hang on to old insurance coverage of all types just because they've had that same insurance coverage for a long time and are resistant to change.

But remember, when you’re in retirement, you have little extra room in your budget to waste money on needless coverage or to be shortchanging yourself on coverage you do need! Many of my retired clients find they can get more coverage in the areas they *do* need and eliminate or reduce coverage on stuff they *don't* need. And, save hundreds or thousands of dollars in the process!

The best suggestion here is to have a qualified insurance professional objectively review your current insurance and find out what's wrong and what's right.

Mistake #14: Owning your assets the wrong way

One of the biggest mistakes I see is that people own their assets in ways that subject those assets to all kinds of unnecessary risks.

For example, the most common way that people own their home, bank accounts, and other investments is in joint tenancy with rights of survivorship. While this is a simple way to own assets, in many cases, it could be a huge mistake and here are some reasons why:

- If you or your spouse has a liability problem such as a car accident, both of you could lose the joint assets!
- If your marriage goes down the tubes, your spouse could clean out your joint accounts!
- If your kids are on the accounts and they go bankrupt or incur some type of liability: YOU could lose YOUR money as well!
- Many employees put their kids on some of their accounts which later end up costing gift taxes, and can really mess up your family's finances, especially if someone goes into a nursing home.

Another example of assets titled the wrong way has to do with Trusts. Many people believe that merely setting up a Living Trust is all they have to do to properly protect their estate. Not necessarily true. A Living Trust may help protect assets but in many cases it does nothing to protect your assets from liability or other problems.

In fact, quite often, Living Trusts don't even protect your assets from income or estate taxes. And that’s because some attorney just listened to your situation and set up your wills, trusts, and other legal documents without analyzing and coordinating all the issues that you need to consider in retirement.

For example, many people find out, sometimes too late, that their Living Trusts were never funded properly meaning a large part of their assets had not been titled properly in the name of the trust.

You have to take a look at the way you own your assets in the context of your entire financial situation. Do this so you don't risk losing everything you've worked for because you've placed your assets in jeopardy. Asset ownership is a serious yet often overlooked area that can turn into a gigantic tax or financial nightmare!

Mistake #15: Not Accounting properly for loss of income when one spouse dies

A critical component of estate planning for couples is ensuring that a surviving spouse will have enough money to live on. One thing people don't plan for is the reduction of income if a spouse or partner dies -- without corresponding reduction in expenses. For example, if both spouses are receiving Social Security benefits, a significant chunk of that income stream will disappear when one spouse passes away.

The same income reduction can happen if a spouse who receives a pension hasn't signed up for a joint and survivor annuity. If the annuity is based only on the pensioner's life expectancy, at his death, that income source will dry up, with no payments for the surviving spouse. Choosing the joint-and-survivor option may result in less money monthly, but it will provide income for the surviving spouse if the pensioner dies first.

Plan ahead to ensure that your spouse will have enough money to maintain his or her standard of living.

Mistake #16: Retiring with too much debt

It's common that those without adequate retirement savings will also have significant debt as well. Debt like car loans, mortgages or credit cards. It's critical that you be active in managing debt by developing a strategy for paying it off. That generally means paying off debt with highest interest rates first.

It may not be possible to begin retirement entirely debt-free, but the interest payments on high-interest accounts will eat away at your savings. No one wants to spend his or her retirement paying off pre-retirement expenses.

Mistake #17. Refusing to downsize lifestyle

The first few years of retirement in particular may be expensive as you enjoy your freedom from work. Many people are tempted to immediately go on a vacation or make a big purchase. Many retirees want to become more active in the lives of their children and grandchildren. But it's hard to plan for activities and 'unassigned gifting' when a retiree has never set aside these items in their budget during their working years. These kinds of costly decisions can have a lasting effect on future savings.

The two major areas that a retiree can address are his or her home and vehicles. Moving into a smaller house or to a less expensive region can take a large chunk out of your expenses. Reducing the family fleet of vehicles to a single vehicle or acquiring a more fuel-efficient vehicle will also free up more income.

Mistake #18: Not doing consistent, careful, ongoing planning with the aid of Qualified Advisors

Yes, planning is the single, most effective technique to have a safe and secure retirement. The reason most people aren't going to win the retirement game is that they don't follow this crucial sequence when it comes to managing their finances. They don't:

1. Figure out where they are today.
2. Figure out where they want to be.
3. Get a true understanding of the options available to them.
4. Develop a plan that will provide the right "course" to follow.
5. Make the changes necessary to get the plan going. AND
6. Watch the progress and make proper adjustments to keep the plan on course

In all the years I've been helping people win the game of retirement and when studying the characteristics of families who are truly financially independent, I find one common theme. **They make a constant effort to plan for their future.**

In closing, I want to stress again that a serious threat to retirement is your very own procrastination.
That is, not doing anything until it’s too late to act. Remember, people do not plan to fail. They just fail to plan!

I wish you a long, happy and financially secure retirement. And if I can be of any assistance, please do not hesitate to contact me.

Sincerely;
Stephen Geist
Financial Strategist and Safe Retirement Plan Specialist