FTA

FINANCIAL & TAX ARCHITECTS, INC.

7 MISTAKES TO AVOID

TO HAVE A SECURE RETIREMENT

FIRST EDITION

BY YOUR RETIREMENT PROFESSORS

“Retirement,
a time to do what you want to do, when you want to do it, where you want to do it and how you want to do it,”

– Catherine Pulsifer

“AS LONG AS WE HAVE THE MONEY”

* https://www.wiseoldsayings.com/authors/catherine-pulsifer-quotes/

With over 30 years of retirement financial planning, Financial & Tax Architects, Inc. has identified seven financial mistakes that people who retire comfortably avoid. This eBook is a compilation of those mistakes to hopefully help you avoid them.

Our lives are shaped by the choices that we make, and our quality of retirement is shaped by our choices, even more than any other time of our lives.

WHY? We reach an age in which we are unable to fix our financial mistakes. The stress and worry of these mistakes can lead to lost sleep, anxiety, depression, and even serious health issues. These mistakes might dictate what we could do, or not do during our golden years. They can keep the golden years from being golden!

"Two roads diverged in a wood, and I—I took the one less traveled by, And that has made all the difference" Robert Frost

7 MISTAKES TO AVOID, TO HAVE A SECURE RETIREMENT.

1.

NOT HAVING GUARANTEED INCOME FOR LIFE.

During your working years you are accustomed to a paycheck, that paycheck stops when you retire. While you are employed, your money is replenished every pay period. For example, if you get paid every two weeks, you can spend your entire paycheck and it will replenish itself two weeks later. This is not always true in retirement; unless you have an income plan that provides you with guaranteed income throughout your retirement.

When the money you need to live on, and accomplish all your retirement goals, arrives in your mailbox or bank account on a regular basis it provides a peace of mind. When your retirement income is set up properly, you can be confident your living expenses are taken care of and you will have the money necessary to accomplish the things that you want to accomplish.

The fear of running out of money is common in retirement. Most people no longer have the ability to go back to work and “make it rain”, nor do they have the desire to do so. Knowing you will not run out of money, along with the knowledge stock market downturns will not impact your income is a very comforting feeling. Many people who enjoy a successful retirement, address the issue of guaranteed income in retirement by using private pension plans.

2. TAKING TOO MUCH RISK.

"Invest for the long term."

"No pain, no gain."

"The market always comes back."

"To get higher return you must take higher risk."

"Some things do not make me happy to say, but there is a lottery aspect to all of this: when you were born, when you retire, and when your children go to college. And you have no control over that." John Bogle

* https://www.tonyrobbins.com/wealth-lifestyle/stock-market-make-break-retirement/

Since the late 1800s, the stock market has gone through long periods of both bull and bear market cycles. These are long periods of either mostly positive returns or long periods of low or negative returns. These cycles will impact your retirement. If you retired in 1983, enjoyed 17 years of above average stock market returns, however if you retired in 2000, you would have endured two 50% drops in the stock market and may have gone broke if you relied on the stock market for your retirement income.

Beginning in March of 2000 through early in 2003, the stock market dropped almost 50%. After finally getting back to even in 2007, the market proceeded to drop over 50% through early 2009. It wasn't until 2013 when the stock market reached its March 2000 highs. Investors weathered a 13-year time period of wild swings and zero market growth. This can be devastating to any retirement portfolio. We call these big downturns "fatal fluctuations", because they are fatal to your retirement goals. It's also why the stock market should not be considered as an income source.

Large fluctuations are good for us when we are adding money to our portfolio regularly, we can buy more shares when share prices are lower. The opposite is true in retirement. Something to remember in retirement is that "Losses Hurt you More than Gains Help you."™ The next page illustrates the gains needed to offset losses of various sizes.

GAINS & LOSSES ARE NOT EQUAL

10% Loss	NEEDS	11% Gain	IN ORDER TO	Break-even
15% Loss	NEEDS	18% Gain	IN ORDER TO	Break-even
20% Loss	NEEDS	25% Gain	IN ORDER TO	Break-even
50% Loss	NEEDS	100% Gain	IN ORDER TO	Break-even

The math makes it quite clear there is something going on here, it is a fact that losses and gains are not equal. "Losses hurt you more than gains help you."™ In retirement this can be devastating.

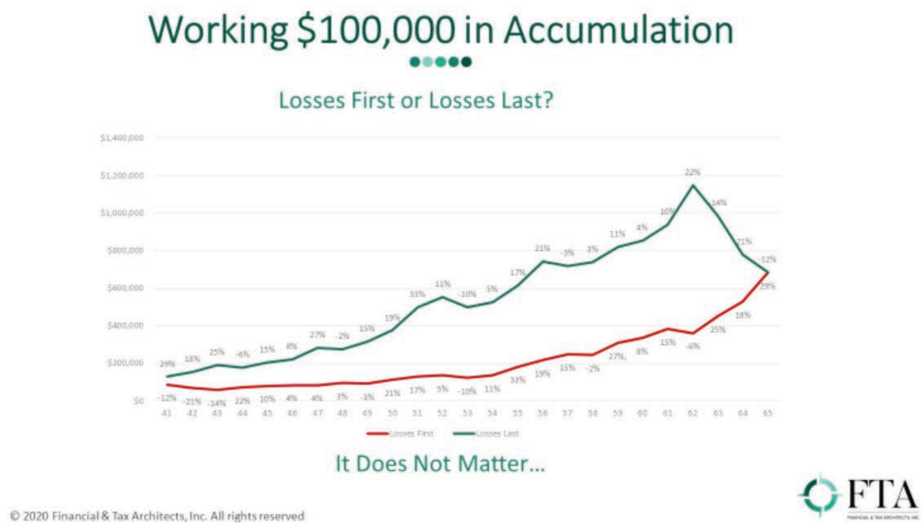
Something else that can have devastating consequences is the order of your investment returns. This is called sequence risk.

This sounds complicated, but it is not. The early years of your retirement tend to define the later years. If you suffer investment losses in the early years of retirement, which is a matter of luck, the odds of your assets lasting your lifetime have fallen off a cliff.

SEQUENCE RISK EXAMPLE

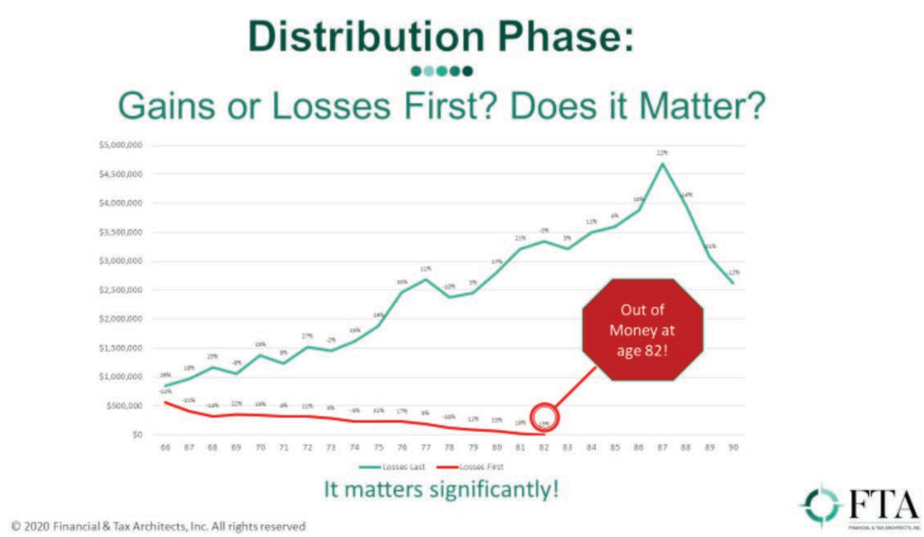
Here we will look at an investor and give him a sequence of returns and then give him the exact same sequence and simply reverse the order. We will do this for the years he is saving for retirement and then do the same thing for the years spent in retirement and taking money from his portfolio to live on.

With this example we are assuming the investor has $100,000 and is 40 years old. As you can see below the sequence of his returns does not matter when he is not taking money out of his portfolio.



Now let's fast forward 25 years and he retires. His portfolio is now worth $684,000 and he needs to take 5% per year to live on. Once he retires the sequence of his returns is the difference between going broke and having a financially secure retirement.

When his losses were at the end of the sequence, he wound up with over $2.6 million when he was 90 years old. Once we reverse the order of his returns and he has 3 years of losses in the beginning he winds up going flat broke when he is 82 years old. This concept is one of the most important concepts that exists in retirement and one that is often ignored.



We all have conscious and subconscious biases, although every investor claims to be free of them, and it is not surprising when these two importance concepts are overlooked. Additionally, the majority of investors tend to invest more money in the markets when the risk levels are higher and take money out when the risk levels are lower.

In other words, we all want to invest when the economy looks brightest, and are afraid to invest when the economy looks bleak. To combat this, wealthy investors employ the services of specialized investment managers who offer private wealth strategies. The wealthy count on those managers to weigh the inherent risks of investing in the financial markets.

3. PAYING TOO MUCH IN TAXES ON RETIREMENT NEST EGGS.

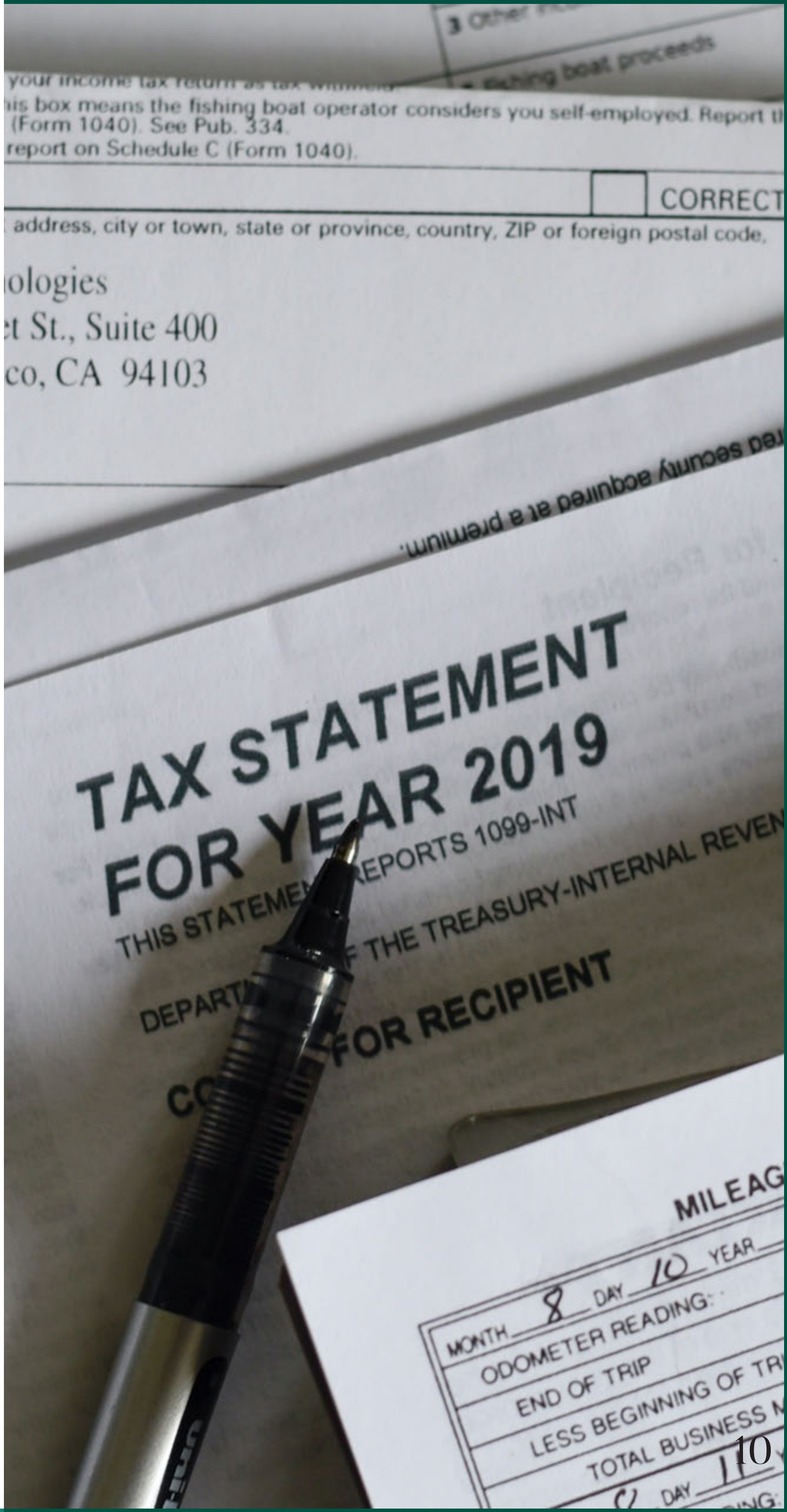
"You have a silent partner in your IRA and 401K and his name is Uncle Sam." Kiplinger

Most people have never considered this, but the reality is that your IRA and 401k are joint accounts with the IRS. The dollars you contribute to either of those accounts are dollars that have never been taxed. Ultimately, Uncle Sam will determine how much of that money you keep, and how much he takes.

How and when you withdraw money from those accounts can have a huge impact on the amount of taxes you pay and how much you keep. It is possible you could wind up keeping a smaller percentage than you planned.

Today, tax rates are the lowest they have been in the past 35 years. At the time of this publication, the U.S. government debt is right at $25 trillion dollars and growing daily. At some point Washington lawmakers are going to need more of your money in taxes, when they do, the money in your IRA and 401k are likely to be included.

Do you have a plan to handle this?



HERE ARE 3 TAX TRAPS THAT YOU MUST AVOID.

Trap #1: Not having a withdrawal strategy.

"…if you are not careful, you can ruin a lifetime of successful saving when it comes time to withdraw money from your nest egg…" The Motley Fool.

Saving money in your retirement accounts is easy, money is automatically withdrawn from your paycheck and goes straight into your retirement account. Withdrawing that money from your accounts can be complicated and confusing. Without a defined strategy for withdrawing the money which accumulated in those accounts you may be clobbered by taxes.

Trap #2: Not having a strategy for taking required minimum distributions ("RMD").

"Think of RMDs as the IRS version of WMDs. Weapons of Mass Destruction." Forbes.

When you turn 72 (as of 2020) you are required to begin to take distributions from your IRA or 401k. In the absence of a plan, a RMD could inadvertently result in moving you to a higher tax bracket, which means paying more in taxes. It might also force you to sell certain of your investments at an inopportune time. This could result in less money in your pocket. It is critical for you have a plan for taking a RMD long before you are required to take one.

Trap #3: Failing to prepare for future tax hikes.

"Another worry that might not be on everyone's radar is the likely increase in taxes that could occur as early as next year." Forbes.

As mentioned earlier, tax rates are currently the lowest that they have been since 1986 at the same time as the U.S. government has $25 trillion in debt in growing. Currently,millions of baby boomers are retiring and it appears likely their IRAs and 401k's will be subject to increased taxes. It is critical for you to take preventative measures now to insulate your nest egg from higher tax rates. Make a small investment of time now to do some advanced tax planning to save a small fortune in taxes later.

* https://www.fool.com/retirement/2017/08/27/3-mistakes-people-make-with-retirement-withdrawals.aspx
* https://www.forbes.com/sites/nextavenue/2016/02/04/abcs-of-rmds-required-minimum-distribution-rules-for-retirement/#508881c66db7
* https://www.forbes.com/sites/johnjennings/2020/07/28/higher-taxes-are-coming--heres-how-to-prepare/#349335303015

4.

TAKING SOCIAL SECURITY AT THE WRONG TIME

“Social security is an extremely complicated program.” Senator John Thune.

The traditional major sources of retirement income in the United States—often called the three-legged stool or the three pillars—are employer-provided pensions (including retirement accounts), , income from assets or savings, and Social Security benefits. Social Security is a social insurance program that provides an inflation-indexed lifetime annuity to aged beneficiaries. With social security being one of the major sources of retirement income for most Americans it is important to take it in the manner that is the most beneficial for you.

Currently there are over 500 different ways that a couple can take their social security benefits and less than 20% of Americans are taking advantage of many of the various ways. It seems that the government purposely makes it complicated to know how to get the most from your social security benefits and proper social security planning is a must if you are going to get the highest benefit that you are owed.

* https://www.brainyquote.com/quotes/john_thune_168965

5. NOT PLANNING FOR LONG-TERM CARE.

Long-term care is something none of us want to need, however, it is an important part of any retirement financial plan. Unfortunately, long-term care is expensive and the majority of us will need it at some point in our lives. Nursing homes typically run about $100,000 per year while in home services and assisted living services start around $50,000 per year.

There are 3 typical ways of planning for long term care.

First, there is long-term care insurance. It is expensive, and the premiums are rarely guaranteed. If none of or only a portion of your benefits are used, the remaining money goes back to the insurance company.

Second, is self-insuring which is not that hard to do for most people. When self-insuring it is important to have a written plan as well as the money ear marked to take care of the expenses. It is not enough to just say that you self-insure; if something happens and you unexpectedly need long-term care, a written plan with your wishes should be readily accessible. The plan should include how and where you want to be cared for, and how to pay for that level of care.

Third, why not do what the wealthy do?

Take advantage of the plan available under IRA code 7702b. 7702b plans are intended to operated like long-term care insurance with two major exceptions. The premiums are typically fixed and never increase, and any unused money goes to your heirs instead of the insurance company.

Rather than pay exorbitant premiums for LTC insurance, have your LTC insurance pay you interest.

6.

NOT HAVING AN ADVISOR THAT HAS THE RIGHT EXPERTISE.

The investment industry is filled with people who understand something about "long-term investing," which is often referred to as "buy, hold, and hope." The reality is hope is not a strategy you can rely on. It takes an advisor who specializes in retirement planning to assist you in navigating those waters so you don't outlive your money while still accomplishing all your goals and values. Just as other industries have people who specialize, the investment industryhaspeoplewhofocusonretirement planning. Since focusing on retirement planning can be more complicated, it does not have the same appeal as those who focus on "go, go, go and grow, grow, grow." When selecting someone to help you with retirement planning, it is important to select a qualified fiduciary.

What is a fiduciary?

"A fiduciary is a person or organization that acts on behalf of another person or persons to manage assets. Essentially, a fiduciary owes to that other entity the duties of good faith and trust. The highest legal duty of one party to another, being a fiduciary requires being bound ethically to act in the other's best interests."

The large investment houses can sell products in which they act as a fiduciary as well as brokers. Investment advisers are required to act as your fiducairy, meaning they are bound by law to act solely in your best interests. A fiduciary who is focused on retirement planning is what you need to help ensure your retirement is mapped out correctly and contingency plans are in place for the things that do not go according to plan.

* https://www.investopedia.com/terms/f/fiduciary.asp

7. NOT HAVING A WRITTEN RETIREMENT FINANCIAL PLAN

A professionally written retirement income plan is a road map that helps you navigate the waters of retirement and shows you ahead of time how you will handle the various problems that will arise. Life happens and it often happens in unexpected ways. Your plan should detail what you will do in the event of inflation, higher taxes, stock market crashes, long-term care events, and more. A plan shows how you will accomplish your retirement goals and how you will pay for all the fun stuff that you want to do. Your plan should be customized for you and your situation. It should take into consideration your personal hopes, dreams, and desires. It will be a living document that is updated regularly with the help of your fiduciary and just might be the single most important document that you have in retirement.

Our retirement years are supposed to be our golden years and not years of stress and worry. Avoiding these seven mistakes will go a long way in helping you to have the retirement that you have always dreamed of having. We think of retirement as a new beginning and hope that yours is all that you have ever dreamed of.

“A thriving new beginning can be, and should be, a time for amazing engagement, growth, connections, contributions, and amazing possibilities.”
– Lee M. Brower

GET STARTED TODAY!

Call us: 314-858-1122
Online: yourretirementprofessor.com.
Email us: info@fta-ria.com
Visit us: 12412 Powerscourt Dr #25,
St. Louis, MO 63131

* https://www.seniorliving.org/retirement/quotes/