

# **RETIREMENT SURVIVAL GUIDE**



**CRITICAL FACTS YOU SHOULD KNOW  
SO THAT YOU DON'T  
OUTLIVE YOUR MONEY**

**By**

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# **RETIREMENT SURVIVAL GUIDE**

## **Critical Facts You Should Know**

### **Introduction**

- CHAPTER 1**    LONG TERM CARE
- CHAPTER 2**    THE NEARLY-PERFECT RETIREMENT INVESTMENT
- CHAPTER 3**    THE ILLUSION OF ILLIQUIDITY  
(ABOUT ANNUITY SURRENDER CHARGES)
- CHAPTER 4**    SOCIAL SECURITY  
(MAXIMIZING YOUR BENEFITS)
- CHAPTER 5**    MAXIMIZING YOUR HOME EQUITY
- CHAPTER 6**    WHAT YOU SHOULD KNOW ABOUT QUALIFIED ACCOUNTS

### **SUMMARY**

### **SERVICES PROVIDED**



## INTRODUCTION

This book contains vital information that can greatly increase your retirement income. Even more importantly, there are facts in here that can help you prevent losses when you're living life in your retirement years and losing principal **is the last thing you want to do!**

The book contains information that is not commonly known so make sure you read all the chapters. It won't take long and will prove to be very useful to you.

After you've had a chance to review the information, please feel free to call me with any questions you may have at the number listed below. Also, feel free to pass this material on to anyone you know who may be interested.

*Your Name*

*Title*

*Company Name*

*Phone: 999-999--9999 Fax: 999-999-9999*

*Email address*

[www.retirementsnapshot.com](http://www.retirementsnapshot.com)



## CHAPTER 1

# AVOID MISTAKES IN BUYING LONG-TERM CARE INSURANCE

As with most insurance purchases that are not mandated by law, the purchase of Long Term Care Insurance is typically “put on the back burner”. No one really wants to purchase a product that they think they’ll probably not use but this type of thinking can have catastrophic consequences if long term care is needed. This report will give you the facts you need to know so that you can make a wise decision regarding the purchase of Long Term Care Insurance (LTC).

### What Are The Odds?

I’m quite confident that you think that you’ll probably never need LTC (we all feel this way) so I’m going to provide you statistics compiled over the last decade that indicate the actual probability of needing some type of LTC. But before I do that, I’d like you to know the definition of needing long term care. The insurance companies define an illness requiring long term care if at least 3 or 4 of the activities of daily living (known as ADL’s) cannot be done without some form of assistance. For example, toileting, bathing, eating, etc. are considered to be activities of daily living. The need for long term care can arise because of an accident or a chronic illness.

According to the statistics, the chance that you will need long term care when you reach the age of 65 is almost 50%. For every 100 people who reach the age of 65, 48 will need long term care and 25 of those 48 people will need it for at least 4

months. Three people out of the 48 will need it for more than 5 years!

However, as I stated above, we all feel that we'll be in the lucky group of 52 people out of the 100 that won't need it but that is surely playing Russian roulette. There is just no way to predict the future whether you are currently healthy or not.

## **The Purpose of LTC**

As with all insurance, the purpose of LTC is to provide you with a monthly income that can offset the charges from the nursing home or home care provider (\*which is the most prevalent use of this coverage). With LTC costs becoming greater and greater every year, a long-term illness without any coverage can obviously put a severe strain on your finances and possibly even bankrupt you if you don't have enough liquid assets. Typical daily costs for long term care are as much as \$300/day or more depending on the state in which you live.

## **How To Determine If You Need It**

It's actually quite easy to determine if you need to purchase LTC. It really all depends on your net worth. If your assets are very low and you're almost broke, you'll probably be able to qualify for Medicaid who will foot the bill so there will be no need to purchase coverage. On the other hand, if you're quite well off with a net worth of at least \$1 Million, you can most likely withstand a long term illness and pay for the costs from your assets so you wouldn't need to purchase coverage.

LTC is really designed to help the middle class which comprises most of us. For example, if your net worth is \$500,000, a long term illness costing \$300,000 over a 3-year period will have a devastating effect on your finances. So, all you have to do is figure out if you can afford to pay for it out of your own funds and if the answer is "NO", I would strongly suggest the purchase of a policy which you're still able to get if you qualify (are healthy).

## When You Should Get Insurance

If, based on what I just stated above, you determine that you should purchase LTC, you should get it ASAP! The reason is that LTC is priced in such a way that the longer you wait, the more you'll actually pay in premiums in the long run. The annual cost for coverage stays the same each year unless a rate increase is approved by the state legislature. So, each year that you delay increases your overall cost in the long run.

Here's a simple example. Let's say you're a 60-year old and the annual costs for a policy paying a \$300/day benefit is \$3,500/year. I'm just making these numbers up to prove a point. So, you would pay \$70,000 in premiums over the next 20 years after purchasing the policy. If you wait a year to purchase at the age of 61, the annual cost is, say \$4000/year. So, your total cost over the next 19 years would be \$76,000. So, by the time you reach the age of 80, you would have paid out \$6,000 more in premiums purchasing at age 61 than if you purchased at age 60. The situation gets even worse if you wait several years. The bottom line is that you should purchase LTC as soon as you determine that you need it.

## How the Premium Is Calculated

There are 5 main components used to calculate the annual cost of coverage. You can reduce the cost significantly by choosing wisely from the following 5 features of LTC.

**1. Daily Benefit** – This is the first thing to determine and is the actual daily amount of money the insurance company will pay after you submit a claim. Obviously, the lower the daily benefit, the lower the cost. The objective is to cover as most of the cost of care as you can afford. If you can't afford a policy that pays a \$300/day benefit, choose a \$200/day benefit. In the case of LTC, something is better than nothing. At least you'll be able to be reimbursed for a majority of the long term care costs.

**2. Elimination Period** – This is the amount of time after you submit a claim that you're not covered. For example, if you choose a 90-day elimination period, you won't get reimbursed for the first 90 days after you submit a claim. This is much less expensive than choosing an elimination period of 30 days. Choose a longer elimination period if you can afford to pay for the LTC costs out of pocket during the elimination period.

**3 In-home vs. out-of-home coverage** - It costs significantly more to provide for nursing home care or assisted - living facility care vs. care provided in your home. Since in-home care can, at times, be provided by family and friends, the more important coverage is actually outside the home.

**4. Benefit Period** – This is the total amount of time for which you'll receive benefits. Since the vast majority of LTC is under 3 years, it probably makes sense to choose a 3-year plan. Once again, you want to make sure you cover the worst-case scenario and it all comes down to what you can afford to purchase.

**5. Inflation Protection** – this feature increases your daily benefit by an inflation factor. If you're under the age of 75, it makes sense to get this feature because it will hopefully be many years before you need benefits. For example, if you purchase a policy at age 60 and need benefits at age 75, the daily costs of LTC will be significantly higher due to inflation.

## **Summary**

I've just provided you with the basics of Long-Term Care insurance and I hope you've found this information to be useful. The bottom line about all finances is cash flow. Will you have enough cash flow in the next 20 years plus to cover basic living expenses plus emergencies such as needing Long Term Care Insurance?

I would be pleased to meet with to you to discuss how Long Term Care Insurance might be appropriate for you. Please call my office at 999-999-9999 to schedule an appointment.



## CHAPTER 2

# THE NEARLY-PERFECT RETIREMENT INVESTMENT (NOTHING IS PERFECT)

If I were to ask you what the perfect retirement investment is, I'm sure you would say something along the lines that it should provide a great interest return, be liquid, have minimum taxes due on the gain and protect you from losing principal. Up to about 10 years ago, no such thing existed because, as you know, there is no gain without risk. As a matter of fact, the greater the potential gain, the greater the risk. That's true of virtually all investments.

### **Introducing Indexed Annuities or "How To Have Your Cake and Eat It"**

Indexed annuities were created about 10 years ago by some forward-looking, creative insurance companies in an attempt to provide the consumer with a product that is extremely suitable for retirement. Before I go into the details of the features of an indexed annuity, I would first like to describe the features of all annuities.

As you probably already know, an annuity is a contract with an insurance company that enables you to receive a steady, fixed payment for a specified number of years depending on the amount of money invested. In a way, annuities are similar to CD's except for the fact that your money is invested with an insurance company versus a bank and since insurance companies are highly regulated, your money is actually safer invested with a quality insurance company.

## **Essentially there are 4 types of annuities:**

- |                               |                       |
|-------------------------------|-----------------------|
| 1. Immediate annuities        | 3. Variable Annuities |
| 2. Fixed Annuities (deferred) | 4. Indexed Annuities  |

**Here is a brief description of each of the above annuities.**

1. **Immediate Annuities** start paying you a monthly income the very next month after you invest your money. The period of time that you choose to receive payments can be as little as 5 years or a lifetime.
2. **Fixed Annuities** are also referred to as deferred annuities since the money accumulates in the account for a certain number of years after which you can choose to “annuitize” your account which means that you now start to receive a fixed monthly payment depending on the amount of money that has accumulated. The problem with these annuities in the past has been that the returns have not been that high but, nevertheless, higher than CD’s. Of course, the great benefit of ALL annuities, is that money continues to grow inside the account on a tax-deferred basis which makes all annuities superior to CD’s as a retirement investment.
3. **Variable Annuities** – unlike fixed annuities, variable annuities can pay very high returns since the performance is tied to underlying stock and mutual funds and therefore, if the market goes up, so will your account. The big problem here is that you can also lose a substantial amount of principal.
4. **Indexed Annuities** – are a form of fixed annuities that enable you to participate in the stock market with No Risk! The gain in the account is based on the increase in one of the stock market indexes such as the S&P 500

## **Indexed Annuities To The Rescue**

In order to resolve the problems associated with the above traditional annuities, insurance companies created the "indexed annuity" which combines the best features of all annuities into 1 product. Through the use of very sophisticated investment techniques, insurance companies were actually able to create a product that enables you to get a nice return and participate in the stock market without risking principal!

### **Exactly How An Indexed Annuity Works**

When you invest in an indexed annuity, you have the option of allocating your money into a fixed account or the indexed account. The indexed account is tied to one of the major stock indexes such as the Dow Jones Industrial average, the S&P 500, etc. Now, one very important thing to note here, is that your money is NOT invested in the market but in the annuity contract. Therefore, you CANNOT lose principal. The insurance company protects itself by investing in stock call options and some sophisticated bond investing.

Let's look at a typical investment in an indexed annuity. The amount of money invested will be \$100,000 and allocated between the fixed and indexed accounts as follows:

#### **Example**

\$50,000 will be allocated to the fixed account paying 4% annually and  
\$50,000 will be allocated to the indexed account (let's use the S&P 500).

The investment will take place on 1/1/2008. Let's say that the S&P 500 value on Jan 1, 2008 is 1500. This value will be used as the starting point to track the performance of the indexed account.

It's now Jan. 2009, 1 year has transpired and the S&P 500 is now at 1,700. Let's also assume that the insurance company puts a CAP on your return of 7%. This is how the insurance company protects itself! This is how your investment account will look on 1/1/2008.

The fixed account will be \$52,000 representing the 4% gain as set forth at the beginning of the contract. The S&P index has skyrocketed to 1,700 representing a 13.3% gain. However, because a cap applies to indexed accounts, you will receive the cap rate of 7%.

So, your account will have a total of \$52,000 (fixed) + \$53,500 (indexed account) = \$105,500.



## WHAT HAPPENS WHEN THE STOCK MARKET GOES DOWN

Now, what happens when the market goes down is actually the best part about indexed annuities because you're totally protected from loss. Let's say you continue to get that 4% in the fixed account and the S&P index on Jan. 1, 2010 plummets to 1400 (a very real possibility). With most investments, you would lose substantial money (as happened with the crash in 2000) but with the indexed annuity, your principal remains intact and you get a 0% return which is a whole lot better than a 17% negative return. And that is what I love about indexed annuities. You can participate in the stock market up to a point but still protect your self from loss.

So, your account after 2 years in the above example has a balance of

\$107,080 consisting of \$54,080 in the fixed account and \$53,500 in the indexed account. The most important principle to remember when you hit pre-retirement age is that NOT losing principal is far more important than the interest rate you receive.

The above example is meant to show you the basic idea of how an indexed annuity works. There are many variations on this theme depending on the company you invest with and the indexing method used. At least, you'll now have the basic idea – you can get nice returns each year WITHOUT subjecting your principal to risk.

### **A Word About Surrender Charges**

Many people feel that their money should not be “tied up” in an annuity because surrender charges are imposed if the money is withdrawn prematurely. However, this too is a myth, and you can find out more about the details by reading the next chapter entitled “The Illusion of Illiquidity”.

### **Summary**

If you're looking for a way to save for retirement, protect your principal from loss and still get a nice return, investing in an indexed annuity would be a good option.

If you want to see what your cash flow will be like in the next 20+ years and how investing in indexed annuities can help you preserve and grow your retirement accounts, please give me a call at 999-999-9999.



## CHAPTER 3

# THE ILLUSION OF ILLIQUIDITY

### ***The Negative Impact of Surrender Charges Debunked***

It's been determined from several studies that the primary reason people hesitate to invest in annuities is the concern with liquidity and surrender charges. People use many different objections such as:

*"I don't want to tie up my money". "I don't want to pay surrender charges"* and a host of other sayings which all relate to liquidity issues. However, upon close examination, it will be demonstrated below that these concerns with liquidity are not really justified and should not dissuade someone from investing in an annuity. In fact, they become inconsequential! After all, the main reason for investing in annuities is to establish a life-long retirement income. Annuities are not typically used for short-term investment objectives.

It's important to realize that any money invested in an annuity is earmarked for retirement and therefore should be a certain percentage of all available funds. After funds are put aside for emergencies and planned purchases, the remaining amount could be allocated for retirement. For example, if you have total savings of \$300,000, investing \$200,000 of that or \$150,000 would not be an unreasonable amount to money to invest.

Let's look at the following scenario:

For example, let's say that \$100,000 is invested in an indexed annuity.

In this example, the annuity is a bonus annuity which pays an upfront bonus of 3%. In fact, there are annuities that actually pay up to a 10% bonus in the first year.

Since this annuity credits you with a 3% bonus on the day your annuity is issued, you will now have \$103,000 in your account on the day your annuity is issued! (\$3,000 is not bad for 1 day of interest!). Let's also assume that your annuity grows during the first year at only a 4% rate. In fact, you will probably do much better than that since the new indexed annuities afford you the possibility of growing more than 2% per month should the S&P 500 rise by that much.

At the end of the first year, your account would grow to \$107,120.

Now, if for some reason you do have to withdraw funds, you are now faced with those dreaded surrender charges. The annuity in this example levies surrender charges for 10 years starting with 10% in the first year, 9% in the second, etc. decreasing to 1% in the 10<sup>th</sup> year. However, it's extremely important to realize that the charges are imposed on the amount withdrawn **which exceeds 10% in any given year**. Therefore, you can withdraw 10% of your account balance (or \$10,000 in this example) in any year after the first without any penalty.

Now, let's say that you desperately need money due to some unforeseen circumstance and need to withdraw \$20,000 from your annuity. This assumes that you've already spent your rainy-day savings and have nothing left in your other savings accounts (highly unlikely, right?) since you only invest funds in an annuity that will most likely not be needed in the near future. So, you withdraw \$20,000 in year 2.

Since the account has grown to \$107,120, you can withdraw 10% or \$10,712 of the \$20,000 penalty-free. The surrender charge would be 9% x \$9,288 which is only \$835.92. Income tax

would be the marginal tax bracket (e.g. 28%) x \$7,120 = \$1,994.

So, the gain in your account would be reduced by \$836. **So, instead of earning \$7,120 in the first year, you would earn \$6,284 for an overall return of 4.3%.** The \$20,000 being withdrawn now includes \$6,286 of gain in your account! In fact, you could withdraw **\$79,111** and you would be at break-even with regards to your initial investment of \$100,000. In other words, you would still have a total of \$100,000 between the annuity account and the withdrawn funds with NO LOSS! This clearly shows that the issue of surrender charges is really not an issue at all since your account will most likely still be significantly ahead of the initial investment.

Also, you can withdraw 20% from your account without penalty by timing the withdrawals to coincide with your policy anniversary. For example, if your policy anniversary is June 1<sup>st</sup>, you can withdraw \$10,000 on May 31<sup>st</sup> and \$10,000 on June 2<sup>nd</sup> since each of these 2 withdrawals occurs in 2 consecutive policy years!

Another very important point to realize is that there are NO SURRENDER CHARGES AT ALL when you annuitize your annuities and start receiving a monthly check.

The chart below summarizes the above scenario

	<i>Starting Balance</i>	<i>End of Year 1</i>	<i>End of Year 2</i>
<b>Annuity</b>	<b>\$100,000</b>	<b>\$107,120</b>	<b>\$84,291</b>
<b>Non-Annuity Accounts</b>	<b>\$0</b>	<b>\$0</b>	<b>\$20,000</b>
<b>Total Balance all Accts</b>	<b>\$100,000</b>		<b>\$104,291</b>
<b>Overall Return after Tax</b>			<b>4.3%</b>

I hope that the scenario above puts the issue of surrender charges in perspective and sheds some light on the ramifications of taking premature withdrawals from annuity accounts.

In the example above, even though a \$20,000 withdrawal was needed from the annuity, total funds including the annuity still grew by 4.3% for the year! (and that's after taxes)

When a retirement plan is designed properly, surrender charges should be a minor issue if the appropriate amount of money has been invested in an annuity.

Please keep in mind that the provisions for withdrawing funds from annuities vary significantly from company to company.

### **Summary**

As usual, there are a lot of myths in the financial marketplace and the notion that your money is tied up in an annuity with no access to the funds is just not true. I read recently that the average CD owner rolls over his/her CD for at least 10 years (it may have been 18 years) so that fact validates what I've been saying even more because there are usually no surrender charges after 10 years and some annuities only levy charges for 5 years.



## CHAPTER 4

# MAKING THE RIGHT DECISIONS WITH RESPECT TO YOUR SOCIAL SECURITY BENEFITS

Without a doubt, the rules governing Social Security are quite complicated as are most things associated with the Federal Government. It is my intention in this chapter to provide you with the basic knowledge you need to know so that you don't make mistakes concerning your Social Security benefits. Decisions are usually irreversible regarding benefits, so it's important to know all the facts before you decide to collect your benefits. And to complicate matters even more, there are special circumstances that can alter the benefits.

By the way, you're eligible to receive benefits if you've worked at least 40 full-time quarters in your lifetime. They need not be consecutive. In addition, being disabled also can offer you the opportunity to collect disability benefits.

### **Determining Your Benefits**

You're eligible to start receiving benefits as soon as you reach your 62<sup>nd</sup> birthday and have met the minimum numbers of quarters worked as mentioned above. However, the benefits you receive at age 62 are not considered to be FULL benefits and are reduced. FULL benefits can be received from the ages of 65 through 67. If you were born prior to 1938, you can start to receive full benefits at age 65 and if you were born between 1938 and 1942, the full retirement age increases by 2 months per year. For example, if you were born in 1940, you would be eligible to receive full benefits at the age of 65 and 2 months. If you were born between 1943 and 1954, the full retirement age

is 66. The full benefits age then increases by 2 months a year for those born between 1955 and 1959. If you were born in 1960 or later, your full retirement age is 67. This is all summarized in the following table

<b>Year of Birth</b>	<b>Full Retirement Age</b>
Prior to 1938	65
1938 – 1942	<b>65 + 2 mos./year beyond 1938</b>
1943 - 1954	66
1955 – 1959	<b>66 + 2mos./year beyond 1955</b>
1960 and greater	67

The question about when to apply for benefits inevitably surfaces and is very important since the total amount of benefits received can vary greatly depending on when application is made to the Social Security Administration.

It's also very important to understand that the amount of your benefit can be decreased if you have earnings after retirement and you've chosen to receive benefits PRIOR to your full retirement age. The basic rule states that you can earn up to \$12,000 per year with any penalty. For each dollar of earnings that exceeds \$12,000, your benefit will be reduced by 50 cents.

Here's an example: Let's say that you've retired and have opened up a nice little side business doing whatever it is you like to do. Things are going along really nicely and you wind up earning \$25,000 per year from your side business. According to the rule above, your social security benefit will be REDUCED by \$12,500/year which means that you may receive NO BENEFITS at all depending on what your Social Security benefit was calculated to be. THEREFORE, it's very important to plan beforehand as to whether or not you intend to continue working beyond retirement. In many cases, it will not be worth it to receive benefits prior to your full retirement age.

As usual, there are many variations on this but I want you to know the basic rule so you can plan accordingly. The other thing to keep in mind is your health. If you're not healthy and have a chronic condition, you may want to start receiving benefits at age 62. You know the old saying: "A bird in the hand is worth two in the bush".

More detailed information can be obtained from the Social Security Administration's website at [www.socialsecurity.gov](http://www.socialsecurity.gov)

If you would like assistance in determining when to apply for social security benefits and receive a free analysis comparing the various alternatives, please give me a call at 999-999-9999..



## CHAPTER 5

# MAXIMIZING YOUR HOME EQUITY

For most people, their largest asset by far is the home in which they live. Considering the tremendous appreciation that homes have experienced in the last several years, there are literally millions of people in this country living in paid-off homes that are worth many hundreds of thousands of dollars.

Now, let me ask you a question? What is the annual return that this home equity receives each year. If you guessed ZERO, you're correct. Although the equity varies each year based on market conditions, it's a financial fact that home equity does not generate any interest return such as bank accounts, mutual funds and other standard investments. In spite of this fact, the vast majority of home owners in this country rush to pay off their mortgage.

As it turns out, THIS IS A MISTAKE. Money sitting inside the equity built up in a home is "money trapped" which can't be put to productive use. This notion that paying off the mortgage is wise has been around a long time and may have been appropriate many years ago but times have changed and there are now many options for converting home equity into a more productive asset. I doubt if you can find millionaires who got that way because they paid off their mortgage. They all know that paying off the mortgage reduces available capital that can be used for other purposes.

If you want to maximize your retirement income, you need to take a long-term perspective since the average life

expectancy has increased dramatically over the past few decades. Paying off the mortgage is a short-term view.

As a matter of fact, paying off the mortgage can be downright dangerous because if you need money in later years, your cash reserves will be lower and it's always harder to get a loan when your income is reduced as is typically the case in retirement years. Having cash available when you need it can be a real life-saver.

## **The Best Place For Home Equity**

Since the objective is to maximize retirement income, the best place to transfer home equity is a product that is safe and which does not create a large tax burden. You also want to transfer that equity into a vehicle that can get significant returns without subjecting your principal to loss.

As it turns out, the absolute best place to transfer your equity is into an investment grade life insurance contract. As a matter of fact, there is a life insurance product created only a few years ago called indexed Universal Life that works in a similar way as the Indexed annuity does as described in a previous chapter. The account values build up based on the index chosen so you can get nice returns, participate in the stock market and have your principal protected.

Now you may be asking why life insurance is the best place to transfer your home equity and the reason has to do with taxes. Life insurance lets you build up a nice account value and the money grows on a tax-free basis. That's right! When you start withdrawing the money in later years, the amount withdrawn is not subject to tax and that makes a huge difference when comparing it to other investment alternatives. This is one of the few investments, if not the only one, that the government has chosen to remain sacred with respect to taxes. Transferring your home equity into a life insurance contract by refinancing your mortgage will also give you a bigger tax

deduction and can increase your retirement income by as much as 50%.

## **How It's Done**

Here's a simple example of how this works. Let's say that you're a 60-year old who only has \$50,000 remaining on your mortgage, will retire in 2 years and your home has increased in value to \$400,000. You would obtain a new 30-year mortgage and preferably be one that is an interest-only mortgage. That's because the objective is NOT TO PAY OFF THE MORTGAGE but to obtain the largest tax deduction available.

Since you're still working and assuming that you have decent credit, you can now obtain a new mortgage for 80% of the \$400,000 home value which will be \$320,000. Of course, you can elect to get a lesser mortgage based on your anticipated cash flow. Now you may be concerned about the increased mortgage payment but remember that it will generate a large tax deduction and you will now have \$270,000 in CASH to invest. The \$270,000 is what you have left after paying off your existing mortgage.

You can now purchase a life insurance contract and deposit the \$270,000 but not all at once. The government has restrictions on the amount you deposit because too large an amount at one time would negate the tax benefits offered by life insurance. So, you would make 5 annual deposits of \$54,000 for the first 5 years. This is called a 5-pay plan in insurance lingo. After you make the first annual payment, you would keep the money in a safe place such as a CD, Money Market, etc.

That is a brief overview of how this concept works. If you want to get a fantastic instruction on this concept, I would recommend the following resources.

## Recommended Resources

I recommend that you read the following books which really are well written and go into a lot of detail with regard to this concept. The books are as follows:

**"*Stop Sitting On Your Assets*"** by Marian Snow  
Website is [www.StopSittingOnYourAssets.com](http://www.StopSittingOnYourAssets.com)

**"*Missed Fortune 101*"** by Douglas R Andrew  
Website is [www.missedfortune.com](http://www.missedfortune.com)



## CHAPTER 6

# WHAT TO DO WITH YOUR QUALIFIED ACCOUNTS...A CRITICAL DECISION

First of all, I'd like to explain exactly what a qualified account is and the definition is actually quite simple. Any retirement money that has NOT been taxed is considered to be qualified money. It's qualified in the sense that the money when initially invested qualified for a tax exemption (delay). The government will get its money sooner or later. Always better to be later! Accounts such as IRA's, 401k's, 403b's, etc. are all considered to be qualified retirement plans.

In this chapter, I'm going to explain the different options you have for collecting that money when you retire. The decision you make is critical and will impact your retirement cash flow in a very important way. If you make the wrong decision regarding the disbursement of these funds, you could be short-changing yourself by many thousands of dollars, principally due to the negative impact of taxes.

You have 3 choices regarding the disbursement of your qualified money as follows:

1. **Roll over** to an IRA
2. **Stay Put** in your company's plan or roll the money to a new employer's plan
3. Take a **lump-sum distribution** and pay the tax due (which will be quite significant!)

The choice that you make will turn out to be one of the most important ones you'll ever make and will depend on a variety of

factors. The following factors should weigh in your decision as to which of the above 3 options you decide to take.

- When will you need the money
- Your tax bracket at the time of retirement
- Your health
- Amount of money (cash flow) needed for retirement
- Amount of the lump-sum distribution
- Your age
- Your estate plan
- Whether you pay the income tax or your heirs
- Whether you continue to work or have a business

### **Option #1 – Roll Over**

With this option, you merely roll over the entire amount of money nestled in your 401k or whatever into an IRA. There is NO TAX due since an IRA is also considered to be a qualified account but keep in mind that the money must be rollover over within 60 days starting with the day you receive the money. The tax laws regarding IRA's are much more liberal and flexible than for company 401k plans so this is an option you'll definitely want to consider.

The best way to do the rollover is called a direct transfer. In this case, your company will transfer the money directly from the 401k into the IRA and you'll circumvent the risk of forgetting about the 60-day rule. If you do collect the money from your company and forget about the 60-day rule, you'll be slapped with a hefty tax bill.

As with anything that involves the government, there are a zillion variations on the roll over scenario so you should meet with a competent financial advisor to understand all the ramifications.

Now, let's look at the main advantages of rolling over (not in bed – your money into an IRA)

- **Advantages for your beneficiaries** – Your beneficiaries can keep the money growing over their own life
- **Smooth Estate Planning** – money in the IRA can be easily coordinated with the overall estate plan
- **More Investment Choices** – There are significantly more investment choices than typically offered in company plans allowing you to grow your money at a quicker rate
- **ROTH conversion ability** – You'll be able to convert the IRA to a ROTH IRA and allow income to pass tax-free to your beneficiaries
- **Annuity Investment** – You can invest some of the money into an annuity which has its own unique benefits (especially if you take advantage of indexed annuities as explained in a previous chapter)
- **More Flexibility, availability and control** – You have immediate access to your funds, no withdrawal restrictions and are in complete control
- **Account Consolidation** – you can consolidate all your retirement accounts in one IRA and not worry about keeping track of everything – your life will be much simpler
- **Plan Portability** – You can roll over the IRA money into a company plan if you decide to keep working
- **Professional Advice** – You are usually dealing with a professional retirement planner when dealing with IRA's as opposed to company personnel with little knowledge

Now here are the advantages of “Staying Put” in your company's plan after you retire. In this scenario, you basically do nothing when you leave the company.

## Option #2 - Stay Put

- **Federal Creditor Protection** – You're protected against all bids on your assets (such as bankruptcy, lawsuits, etc. on the federal level whereas you're protected only on the state level with IRA's
- **Borrowing Capability** – You can't borrow money from an IRA but you can from a company plan
- **Life Insurance** – you can purchase life insurance using your 401k money but not with IRA money. If you do need additional life insurance, you may qualify for it much easier using your company plan
- **"Still-Working Exception"** – If you don't plan to retire at the usual age (62 – 66), you can delay the RMD (Required Minimum Distributions) at age 70 ½. The RMD rule states that you must withdraw from your retirement accounts in the year following the year you reach the age of 70 ½.
- **"Age 55 Exception"** – If you leave your job when you're at least 55 years old and need to withdraw some money, you can do so without having to pay the 10% early withdrawal penalty (which kicks in at age 59 ½). This is not true with an IRA.

Now here are the advantages of taking a lump-sum distribution.

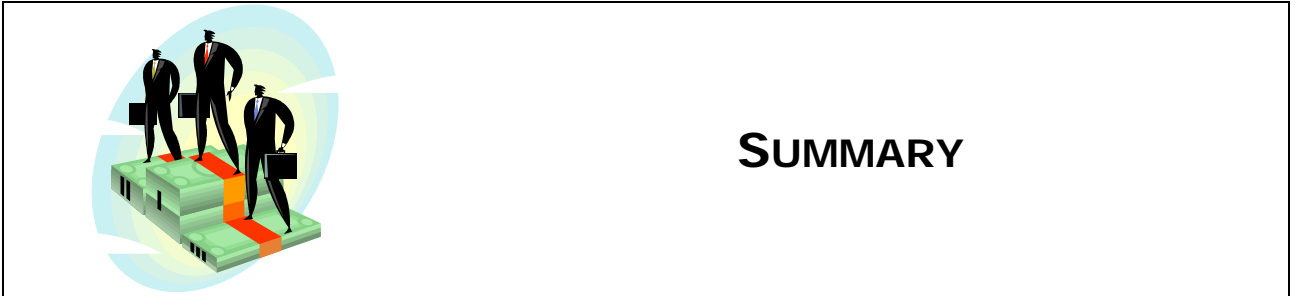
## Option #3 – Lump-Sum Distribution

- **Special tax breaks** – You may qualify for NUA stock(Net unrealized Appreciation) or 10-year averaging – Basically, you are afforded the opportunity to pay tax on the original cost of the stock rather than it's fair market value when you sell – For 10-year averaging you must have been born before 1936
- **Fewer Restrictions and Worries** – Basically, when you take a lump-sum, you're all paid up so to speak and need not worry about future rate hikes, changes in the law, etc. You're done!

- **Less Hassle for heirs** – Your heirs are saved all the hassle involved as beneficiaries and have liquidity

I've just provided you with a brief explanation of what's involved when you have to decide how to collect your retirement funds. It's vitally important that you consider all the points mentioned above before you decide what to do with your qualified money ...a wrong decision can cost you a lot of money.

If you would like a free 20 – 40 year projection showing all your income streams, assets and cash flow, call me at 999-999-9999.



## SUMMARY

In the final analysis, all financial planning involves the calculation of your cash flow and the determination if it will be sufficient to meet your ongoing, projected expenses. The decision of whether to purchase long term care insurance, whether you should invest in an annuity, etc and other decisions are all related to the generation of future income.

Specifically, it's very important to know the answers to the following questions:

- Is there a chance I'll outlive my money?
- Will my monthly pensions, social security and other income meet my ongoing needs?
- Do I have enough assets to withstand a long term illness?
- Will I have a negative cash flow in a future year?
- When will I be able to retire with an adequate cash flow?
- Are the investments I own appropriate for my age and risk tolerance?
- Will I have to dip into my assets to create additional income?
- How do I plan for a future major expenditure?

I will be pleased to meet with you to discuss the answers to these important questions. Please call my office at 999-999-9999 to arrange for your free retirement and cash flow analysis.



Advisor to complete with list of financial services provided to client.