

# TOP 10 RETIREMENT PITFALLS...

## And How to Avoid Them



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As a teenager, I spent several summers working as a golf caddy at one of our local country clubs. It was a tough job but it paid well. Most of my clients were regulars at the club. They had played the course many times and knew where all of the hazards were placed. But occasionally, I would caddy for a new member or guest who had never been to the country club before. This was more fun for me, because these clients depended on me to guide them through the course, pointing out all of the pitfalls along the way. Since I had walked those 18 holes several hundred times, I knew where every sand trap and water hazard was located. My knowledge became an incredible asset to my client.

Interestingly enough, today I still work in a similar way. Having walked with hundreds of clients into and through retirement, I've learned all of the pitfalls that lay waiting for unprepared retirees. My hope, and challenge to you, is that you will take the time to read this report and find a professional who will help you plan for the sand traps and water hazards that line the course called Retirement. If you allow it, my knowledge can become an incredible asset to you and your family as you prepare for one of the most important times of your life.

For many Americans, the thought of retirement can be overwhelming. It can cause anxiety and fear as they begin walking into uncharted waters. One of the biggest challenges is

balancing the life they want to live today with the life they want to live in retirement. One of the biggest mistakes is failing to work with a professional planner who can help you define and create a retirement "road map". Having a guide like this can ensure that you stay on course and keep you away from mistakes that could derail your golden years.

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## **RETIREMENT PITFALL #1** *Underestimating Income Needed to Live On*



The first question I ask clients when discussing their retirement plan is, "how much income do you need to maintain your current lifestyle in retirement?"

Not surprisingly, for the vast majority the answer is, "I don't know", or they've made an inaccurate assumption. If the assumption is too high, the goal of retirement may seem absolutely unattainable, and the entire planning process could be discouraging. If the assumption is too low, which is most often the case, my client could run into a difficult financial situation later in life and have to make drastic, unwanted changes.

## RETIREMENT PITFALL #2

### *Sequence of Returns Risks*



The general rule of thumb is to figure that you will need approximately 80% of your current annual income in retirement. Now, I have to say that I'm not a big fan of making generalities. However, most people underestimate how much money they will need in retirement.

Keep in mind that retirees spend more on travel, entertainment, and eating out, especially earlier on in retirement when they have the time and good health to enjoy those activities. Often times, my clients slow down as they reach their mid to late 70's due to health issues.



The best way to begin income planning is to gather some basic information such as:

- Social Security amounts (found at [www.socialsecurity.gov](http://www.socialsecurity.gov))
- Pension Income amounts and/or Income amounts from businesses or real estate
- Retirement Account balances
- Detailed Monthly expenses (broken out by category)

With this information, your planner can put together a solid income roadmap. Remember, retirement is just like being unemployed for 20 to 30 years. Creating this plan is critical to ensure that you don't outlive your nest egg.

You'll never hear this from the media or your broker, but it's real and it rips apart retirement dreams for millions of Americans. It's called Sequence of Returns Risk.

In fact, a close friend of mine saw his "golden years" completely destroyed when Sequence of Returns Risk hit his portfolio...and the only solution was for him to drastically change his lifestyle and to go back to work at age 68.

Here's how it works. Every day, the market goes up, and it goes down...completely out of our control. This volatility can negatively impact our retirement nest-egg during the accumulation years, but it can completely destroy it during the distribution years.

Once we have begun withdrawing income in retirement, down market years can have a multiplying negative effect on our savings, essentially diminishing any remaining assets. Over time, this depletion of savings will cause your retirement accounts to run dry. Here's a very real example of what I'm talking about.

Let's look at a simple example of two individuals, Jim and Cheryl. Both Jim and Cheryl retired at age 65, and had the same starting account values of \$600,000. They entered into retirement with high hopes and big dreams...planning to live on 5% of their savings each year. Of course they would increase this amount annually by 2.7% to keep up with inflation. Let's look at the results...

## Sequence of Returns Risk Example

<b>JIM</b>			
Age	Market	Annual	Nest-Egg at
	Gain/Loss	Withdrawal	Start of Year
64			\$600,000
65	-9.22%	\$30,000	\$600,000
66	-12.88%	\$30,810	\$517,446
67	-23.62%	\$31,642	\$423,957
68	13.65%	\$32,496	\$299,651
69	1.26%	\$33,374	\$303,621
70	11.56%	\$34,275	\$273,652
71	28.33%	\$35,200	\$267,050
72	-7.35%	\$36,151	\$297,533
73	24.33%	\$37,127	\$242,171
74	4.13%	\$38,129	\$254,931
75	7.54%	\$39,158	\$225,756
76	-2.20%	\$40,216	\$200,667
77	31.11%	\$41,302	\$156,921
78	19.64%	\$42,417	\$151,589
79	32.66%	\$43,562	\$130,614
80	27.54%	\$44,738	\$115,483
81	19.44%	\$45,946	\$90,228
82	25.63%	\$47,187	\$52,891
83	-36.55%	\$4,777	\$7,166
84	2.00%	\$0	\$0
85	11.43%		
86	4.10%		
87	25.40%		
88	23.99%		
89	11.00%		
Average Return		Total Withdrawal	
<b>9.32%</b>		<b>\$688,505</b>	

<b>CHERYL</b>			
Age	Market	Annual	Nest-Egg at
	Gain/Loss	Withdrawal	Start of Year
64			\$600,000
65	11.00%	\$30,000	\$600,000
66	23.99%	\$30,810	\$632,700
67	25.40%	\$31,642	\$746,283
68	4.10%	\$32,496	\$896,160
69	11.43%	\$33,374	\$899,075
70	2.00%	\$34,275	\$964,651
71	-36.55%	\$35,200	\$948,983
72	25.63%	\$36,151	\$579,795
73	19.44%	\$37,127	\$682,981
74	27.54%	\$38,129	\$771,409
75	32.66%	\$39,158	\$935,225
76	19.64%	\$40,216	\$1,188,722
77	31.11%	\$41,302	\$1,374,073
78	-2.20%	\$42,417	\$1,747,396
79	7.54%	\$43,562	\$1,667,470
80	4.13%	\$44,738	\$1,746,351
81	24.33%	\$45,946	\$1,771,889
82	-7.35%	\$47,187	\$2,145,865
83	28.33%	\$48,461	\$1,944,426
84	11.56%	\$49,769	\$2,433,092
85	1.26%	\$51,113	\$2,658,835
86	13.65%	\$52,493	\$2,640,579
87	-23.62%	\$53,910	\$2,941,360
88	-12.88%	\$55,366	\$2,205,434
89	-9.22%	\$56,861	\$1,873,140
Average Return		Total Withdrawal	
<b>9.32%</b>		<b>\$1,051,700</b>	

As we look at this scenario, it's interesting to note that both Jim and Cheryl averaged a 9.32% return over this 25 year period. The difference, however, is that Jim experienced negative years early in retirement – notated by the red cells, and Susan experienced negative years late in retirement. Look at the staggering difference in the two outcomes.

Remember...both started with same amount of money...and averaged the same exact return. The difference was this...the Sequence of Returns. Unfortunately, Jim ran out of money at age 84...only taking out \$687,000. Susan, on the other hand had withdrawn out over \$1,000,000 by age 89 and still had \$1.8M left. *What a difference!*

Retirement is full of uncertainties. Most of them are out of our control. Sequence of Returns risk, however, is different. It is 100% avoidable, but many Americans will still feel its devastating effect. The reason? They continue to risk their hard earned savings in the Wall Street Rollercoaster. Unfortunately for them, NO ONE knows when the market will crash... and if it happens at the beginning of your golden years, this could devastate your retirement.

Wealth Planners of America can show you how to plan for the “uncertainty” risks in retirement and avoid Sequence of Returns Risk altogether, while still earning a competitive rate of return.



## **RETIREMENT PITFALL #3**

### ***Not planning for Cost of Living and/or Tax increases***

Remember when...? As you think back just 20 years to what everyday essentials cost versus what they cost today, it can be downright scary. Here are just a few things to consider:

Item	1995 Cost	2015 Cost	% Increase
First-class stamp	\$.32	\$.49	153%
Gallon of gas	\$1.15	\$2.50	217%
Dozen eggs	\$1.16	\$1.98	171%
Gallon of milk	\$2.96	\$3.79	128%
New car average	\$15,500	\$31,252	202%

Over the past twenty years, inflation has averaged 2.7% per year. Interesting, though, COLA (Cost of Living Adjustment) increases in Social Security benefits within that same time period have only averaged 2.38%.

The bottom line is that a dollar today will not be worth a dollar next year, let alone in 20 to 30 years. If you want a solid retirement plan, it must account for cost of living increases. If not, you will most likely find yourself broke in your golden years.

Additionally, taxes will most likely continue to increase in the future. Do you realize that our nation's debt has just crossed the \$18 trillion mark? We are projected to surpass \$20 trillion by 2017. Obamacare alone is estimated to add \$6.2 trillion in national debt over the next 75 years. There are currently over 8.6 million

unemployed Americans, constituting 5.5% of the eligible workforce. In 1945 there were 42 workers for every 1 retiree. Today, there are 2 working Americans for every 1 retiring. Every 9 seconds, another Baby Boomer retires.

It doesn't take a scholar to realize that we are building an empire of debt for our children and grandchildren. Taxes will have to increase in the future. In fact, they have already started. As of January 1, 2015:

- The top marginal federal income tax rate jumped from 35% to 39.6%.
- The top marginal tax rate on long-term capital gains and dividends increased from 15% to 20%.

Any retirement plan needs to account for a potential increase in taxes in the future.

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## **Retirement Pitfall #4** ***Disregarding Higher Health Care & Long Term Care Costs***

One of the most overlooked areas of retirement planning is estimating what health care costs could be in retirement and including this in the calculation of income needs. A catastrophic illness, such as, heart attack, stroke, cancer, or Alzheimer's disease, could wipe out your total assets. As a matter of fact, catastrophic illness is the **#1 Destroyer** of estates today.

Fidelity estimates that a 65-year-old married couple that retired in 2012 will incur an average of \$240,000 in healthcare costs alone in retirement. By overlooking this large potential outlay, retirees could feel strapped for cash in their most vulnerable years.

Often, people assume Medicare will cover these expenses in retirement but this simply is not true. Medicare costs to retirees are rising each year so it's important to know what to expect. Additionally, the cost of Long Term Care and Home Health Care continues to grow.

Anyone who has cared for an aging parent knows first-hand the toll it can take on their loved ones and their savings. Both the time and money needed to provide quality care can be staggering.

Current statistics show that 70% of all Americans will enter a nursing home at some point in their lives. With the national average cost of nursing home expenses exceeding \$90,000 annually, will you have sufficient resources to cover the expenses these types of facilities require, if needed?

Also, home healthcare expenses could reach as high as \$45,000 per year for a person needing ongoing assistance. These costs are projected to continue to rise faster than inflation and can add up quickly.



## Retirement Pitfall #5

### *Leaving more money to the IRS than to your beneficiaries*

Did you realize that up to 73% of Americans' IRA savings can ultimately go to the IRS? Most IRA's become a "tax time-bomb" when they are passed down to kids or grandkids. These funds are qualified and have never been taxed. Therefore, beneficiaries will have to pay income tax on the money they receive based on their tax bracket. This could be substantial because they could still be working and taxed at a higher level.

There are great solutions to "de-fuse" these tax nightmares. Through proper planning you can create a plan to:

- Immediately increase your estate
- Provide an income tax-free inheritance to your beneficiaries
- Pass money directly to beneficiaries avoiding costs of probate
- Have access to your guaranteed cash values for financial emergencies
- Receive living benefits in the case of a catastrophic illness such as:
  - ✓ Terminal Illness
  - ✓ Nursing Home Confinement
  - ✓ Home Health Care/Adult Day Care
  - ✓ Other Qualified Care

If you don't do anything, Uncle Sam will help himself to the bulk of your beneficiary's inheritance. The only way to stop this is to take action today. A good planner can show you how to keep the Federal Government out of your wallet.

## Retirement Pitfall #6

### *Claiming Social Security at the Wrong Time*



Many Americans choose to begin drawing Social Security at age 62. Why? Because they can. And, they are worried that SSI funds may not be there for them if they wait. The reality? Social Security is going nowhere...but it will have to change significantly in the future in order to meet ongoing obligations.

It's no secret, Social Security is a failing system. Under current conditions, the SSI trust fund will be depleted by 2033, just 18 short years from now. Many believe that benefits won't be there when they retire.

The truth is, however, there are many ways that Social Security can be quickly "fixed". Here are three solid moves that may happen in the future to extend the trust fund and ensure that retirees receive the full benefits that they are owed:

1. Raise the full retirement age (FRA)
  - a. Currently FRA is age 66 for those born between 1943 and 1954
  - b. FRA increases slightly for those born between 1955 and 1959
  - c. For those born in 1960 or later, FRA is age 67

2. Raise the Social Security Earnings Cap
  - a. Just 20 short years ago, SSI taxes were paid on the first \$61,200 of wages each year
  - b. Today the earnings cap is \$118,500
  - c. Currently there is no Maximum Earnings Cap as it pertains to Medicare taxes
3. Increase the Social Security tax rate
  - a. Currently, employees contribute 6.2% up to their yearly Earnings Cap and employers must match that 6.2% up to the employee's yearly Earnings Cap.

At present, based on a retiree's annual income, up to 85% of his or her Social Security benefits can be taxed at their ordinary income tax level. This could potentially increase in the future, just one more uncertainty in retirement.

If you haven't done so, it's important to meet with your planner in regards to Social Security Claiming strategies. The truth is that there are hundreds of different claiming options, and most Americans don't know anything about them. A true planner will run an SSI assessment for you to determine which strategy will be best for your situation. Don't make a claiming decision until you have explored ALL of your options.

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## **Retirement Pitfall #7**

### ***Lack of Creditor / Lawsuit Protection***

We live in an increasingly litigious society. A huge percentage of the commercials you hear on TV or radio are for Injury Attorneys. Have you thought about the importance of protecting your assets from lawsuits and/or creditors?

What if you accidentally drive through that stop sign? What if the neighbor kid falls on your sidewalk? It doesn't matter who was right or wrong, if a lawsuit is brought against you, what will happen to the assets that you worked so hard for all of your life?

What if you had very serious economic setback and had to file for bankruptcy? Would you lose all of your retirement assets to creditors? These scenarios, and others like it, happen every day in our country.

In actuality, many retirement accounts do not have the protections needed in order to keep your assets from being liquidated by lawsuits or creditors. While IRAs, 401(k)s and pension plans have specific safeguards under federal laws, there are still state regulations that may put some of these funds at jeopardy. And most non-qualified accounts, like Certificates of Deposit, savings accounts or brokerage accounts offer little or no protection whatsoever.

Make sure your planner has your assets protected from lawsuits and creditors. Your golden years can turn sour quickly if your nest-egg is taken away from you and your family. Be sure that the appropriate tools are in place to ensure that doesn't happen.



## Retirement Pitfall #8

### *Failing to Create an Estate Plan*

Would you believe that over 70% of Americans have no Will or Trust? This is a staggering statistic, especially given the alternative. If you die without one of these documents, the State in which you reside will determine who gets your “stuff”. Additionally, it could all become public information. The entire world can also know who gets your “stuff”.

Proper estate planning will help your spouse and children avoid the chaos surrounding your death. It will save them time, money, and the pain of dealing with probate, allowing them to properly grieve their loss. If for no other reason, establishing an estate plan will bring comfort to those you love when you are gone.

There are dozens of reasons to create an estate plan. Here are just a few of the most important:

- **Minor Children** - Who will raise your children if you die? Without a plan, the courts will make that decision. With a plan, you are able to nominate the guardian of your choice.
- **Blended families** - What if your family is the result of previous marriages? Without a plan, children from different marriages may not be treated as you would wish. With a plan, you determine what goes to your current spouse and to the children from a prior marriage or marriages.
- **Children with special needs** - Without a plan, a child with special needs risks being disqualified from receiving Medicaid or SSI benefits, and may have to use his or her inheritance to pay for care. With a plan,

you can set up a Special Needs Trust that will allow the child to remain eligible for government benefits while using the trust assets to pay for non-covered expenses.

- **Keeping assets in the family** - Would you prefer that your assets stay in your own family? Without a plan, your child’s spouse may wind up with your money if your child passes away prematurely. If your child divorces his or her current spouse, half of your assets could go to the spouse. With a plan, you can set up a trust that ensures that your assets will stay in your family and, for example, pass to your grandchildren.
- **Avoiding probate** - Without a plan, your estate may be subject to delays and excess fees (depending on the state), and your assets will be a matter of public record. With a plan, you can structure things so that probate can be avoided entirely.

Make sure your planner has reviewed your Estate situation. Most good planners also work in conjunction with reputable attorneys who can assist in creating the legal framework for a solid Estate Plan.

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## Retirement Pitfall #9

### *Exposing your Retirement Accounts to Market Risk*

I’m convinced that Wall Street and the Media have conditioned consumers to believe that they have to risk their hard-earned savings in the market in order to get competitive returns. That simply is not true!

Our clients receive competitive returns, sharing in the gains of the market, but never the losses. You might say “that sounds too good to be true”. Trust me, it’s for real.

The question is, why haven't you taken steps to safeguard your retirement assets from market losses? Most people don't realize the real impact of losses and what they can do to your portfolio. Let's look at some examples of what a market correction can do to your nest egg.

If You Lost	You Need To Earn
10%	11.11%
20%	25.00%
30%	42.86%
40%	66.67%
50%	100.00%
60%	150.00%
70%	233.33%
80%	400.00%
90%	900.00%
99%	9,900%

Now, let's look at this a different way. If you incurred a loss in your portfolio, how long would it take to recover?

If you lost this much in the market:	It could take this many years to rebuild your nest-egg!		
	@ a 3% Return	@ a 6% Return	@ a 8% Return
10%	3.6 years	1.8 Years	1.3 Years
20%	7.5	3.7	2.9
30%	12	6	4.6
40%	17	8.6	6.6
50%	23.2	11.6	9

Most people play in the market hoping that they can make great returns. Some years they can...but some years they can't, and they end up losing the great returns they've made previously. Let's look at two examples. Frank spent 10 years of ups and downs in the market.

He had many "great" years, but also some negative years. Jim wasn't interested in the rollercoaster ride, but rather chose a slow and steady rate of return. Let's look at the results:

Year	Frank = \$100,000		Jim = \$100,000	
1	+ 14.00%	\$114,000	+4.75%	\$104,570
2	+ 16.00%	\$132,240	+4.75%	\$109,349
3	+ 7.00%	\$141,497	+4.75%	\$114,346
4	- 9.00%	\$128,762	+4.75%	\$119,572
5	+ 5.00%	\$135,200	+4.75%	\$125,036
6	- 12.00%	\$118,976	+4.75%	\$130,750
7	+ 9.00%	\$129,684	+4.75%	\$136,726
8	- 3.00%	\$125,794	+4.75%	\$142,974
9	+ 13.00%	\$142,147	+4.75%	\$149,508
10	+ 10.00%	\$156,361	+4.75%	\$156,340
<b>TOTAL</b>		<b>\$156,361</b>		<b>\$156,340</b>

After 10 years, both Frank and Jim ended up at just about the same spot. The big difference was that Jim could sleep well at night, not having to worry about the ups and downs of an unpredictable market.

Remember, Wall Street is a game that you CANNOT CONTROL. If you lose what you've spent your entire life accumulating, you have only one choice. Keep working. Is that how you want to spend your retirement?

Don't let a planner talk you into risking your nest-egg. You've worked too hard at building it, and one major market downturn could take it all away from you.

## **Retirement Pitfall #10** **Not Updating Your Retirement Plan**

Markets rise and fall, as do levels of income and expenses, so it is important that your retirement plan be revisited every few years to take this into account. If your last retirement plan was done five years ago, prior to your second child being born, your spouse's promotion, and your mother moving in, chances are your retirement plan is based on a lifestyle that is no longer relevant.

Most financial planners will run a retirement plan and dust it off the shelf every 5 to 10 years. We don't believe that is enough. You should revisit your plan every 3 to 5 years so adjustments can be made accordingly. By making these adjustments often, you'll stay on track for a better retirement.

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### **In Summary:**

Retirement is full of uncertainties and potential pitfalls. Some are out of our control, but most can be handled through proper planning. Having an experienced guide leading you into and through retirement is critical. At Fortress Financial, our advisors can show you how to plan for the risks in re-tirement and will help you create a roadmap that is based on guarantees. They will continue to work with you to adjust your roadmap as needed along the way. It's easy to procrastinate, but I'd encourage you to take the first steps towards a happy and enjoyable retirement.

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**Here are three easy ways for you to contact MLC Financial Services today:**

- 1. Call us at 1-806-416-5650**
- 2. Visit our website at:**

**[MLCfinancialservices.com](http://MLCfinancialservices.com)**

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In any case, we will have one of our licensed professional planners contact you promptly. Thank you for taking the time to review our information. We look forward to the opportunity to help you with your retirement concerns.

