TOP 10 RETIREMENT PITFALLS...

And How to Avoid Them

TOP TEN RETIREMENT PITFALLS...
AND HOW TO **AVOID** THEM

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. My knowledge became an incredible asset to my client.

Interesting, but 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 unchartered 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 you stay on course and keep you away from mistakes that could derail your golden years.

RETIREMENT PITFALL #1

Underestimating Income Needed to Live On

The first question I ask clients when discussing their retirement plan is, "how much income will 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 in inaccurate assumption. If the assumption is too high, the goal of retirement may seem absolutely unattainable, and the entire planning process is 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. 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 desire 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)
- Pension Income amounts and/or Income amounts from businesses or real estate
- Retirement Account balances
- Detailed Monthly expenses (broken out by category)

With these items, 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.

RETIREMENT PITFALL #2

Sequence of Returns Risks

You'll probably never hear this from your advisor, but it's a real and very serious risk that has torn 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 Return 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 our retirement nest egg 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

JIM			
Age	Market Gain/Loss	Annual Withdrawal	Nest-Egg at 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%		
67	25.40%		
88	23.99%		
89	11.00%		
Average Return		Total Withdrawal	
9.32%		**$688,505**	

CHERYL			
Age	Market Gain/Loss	Annual Withdrawal	Nest-Egg at 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	
9.32%		**$1,051,700**	

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 drew 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 Return risk, however, is different. It is avoidable, but you need to be working with an advisor who is aware of this risk and puts safeguards in place to minimize or eliminate it. Unfortunately, no one knows when the market crash will happen. If it occurs at the beginning of your golden years, without proper planning, 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 Return 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	1998 Cost	2018 Cost	% Increase
First-class stamp	$.32	$.50	156%
Gallon of gas	$1.15	$2.95	256%
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 in 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 $21 trillion mark? We are projected to surpass $25 trillion by 2020. This doesn't even include our unfunded liabilities such as Medicare and Social Security. In fact, for the first time since 1982, the total cost of Social Security has exceeded total income for the year.

It doesn't take a mathematician to realize that we are building an empire of debt for our children and grandchildren. Any retirement plan needs to account for a potential increase in taxes in the future.

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.

It has been estimated 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. According to the US Department of Health, 70% of people over 65 will require care at some point in their lives. In the DC metro area, the median annual rate for a private room in a nursing home is $109,580 and it costs $20 per hour for Home Health Care services, in 2013.

Given that 50% of claims last more than one year and medical costs are projected to continue rising faster than inflation, these costs 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 15 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 many 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.

Retirement Pitfall #7

Lack of Creditor / Lawsuit Protection

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 many 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.

What if you accidently 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 advisor 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 73% 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 will 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 advisor has reviewed your Estate situation. Most good advisors also work in conjunction with reputable attorneys who can assist in creating the legal framework for a solid Estate Plan.

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 the only way they will get competitive returns is to put all of their hard-earned savings into risk in the market. That simply is not true!

Market based investments may be appropriate for a portion of your assets, but probably not all of them. The good news is that there are solutions available that allow competitive growth while still protecting the principal from losses. I am convinced that there is no "perfect" product that will meet all of your needs in retirement. Rather, I believe in using a combination of all investments available to create a foundation based on guarantees, and then layer additional solutions positioned for growth to keep up with inflation, longevity and potentially increasing taxes.

The question is, why haven't you taken steps to safeguard a portion of 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 other years aren't so great. 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 roller-coaster 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
TOTAL		$156,361		$156,340

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?

My experience over the past 25 years of working with pre-retirees and retirees has convinced me that the most prudent way to grow and protect your nest egg is through using multiple investment vehicles, not just one. Build a foundation that provides principal protection and guaranteed income first, and then add to that foundation with investments that will provide you with higher growth potential, but still within the confines of safety.

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 grandchild 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.

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 grandchild 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.

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 Wealth Planners of America, our advisors can show you how to plan for the risks in retirement and will help you create a roadmap to avoid the pitfalls. 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.

Here are three easy ways for you to contact Wealth Planners today:

1. **Call us at 1-888-619-0001**
2. **Visit our website at:**

   www.wplanners.com
3. **Fill out the attachment and fax it back to us at 210-340-4654**

In any case, we will have one of our licensed fiduciary advisors 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 con-

WEALTH PLANNERS OF AMERICA

TOP 10 RETIREMENT PITFALLS

AREAS OF CONCERN

If something you have read in our complimentary report has concerned you, I would urge you to take care of it today! It's always easier to procrastinate, but no one knows what tomorrow holds. Be bold and take the first step towards securing your retirement. If not for yourself, do it for your spouse, kids and grandkids.

Wealth Planners makes it easy to get the information you need. Simply check the areas of concern below, return the form to us, and one of our professional planners will contact you promptly. We are here to help!

Sincerely,

David Shields

AREAS OF CONCERN

(PLEASE CHECK ALL THAT APPLY)

- ☐ Underestimating Income Needed to Live On
- ☐ Sequence of Returns Risk
- ☐ Not planning for Cost of Living and/or Tax increases
- ☐ Disregarding Higher Health Care & Long Term Care Costs
- ☐ Leaving more money to the IRS than to your beneficiaries
- ☐ Claiming Social Security at the Wrong Time
- ☐ Lack of Creditor / Lawsuit Protection
- ☐ Failing to Create an Estate Plan
- ☐ Exposing your Retirement Accounts to Market Risk
- ☐ Not Updating Your Retirement Plan

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