

RETIREMENT TRAPS and How to care for my heirs

Download the handout slides from my website:
bob-adams.net/class-handouts
(several website addresses are available)

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The Agenda...

1. First some advice: kids/grandkids
Use your influence as a grandparent
2. Will they have enough?
How long will they need it
3. How to protect my heirs
Write 'em a letter
Have a meeting
4. IRA traps

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1. In the beginning...

- Teach the importance of saving
- Teach what to invest in
 - 401(k) – Roth IRA (hold their hand)
- Teach living expenses must be < than income
 - After saving 10-15% -- automatic deposit
- Teach credit card debt is not acceptable
 - Making the minimum payment is a road to financial ruin

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Retirement: *Planning*

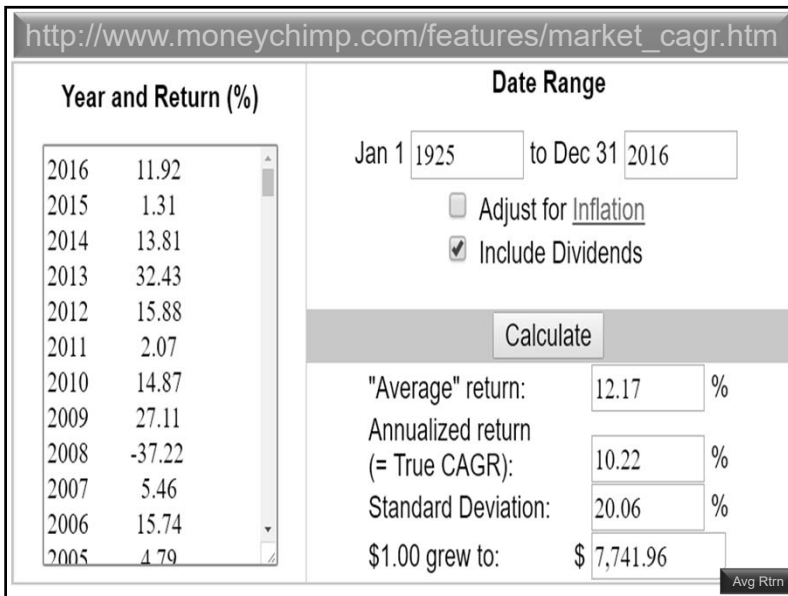
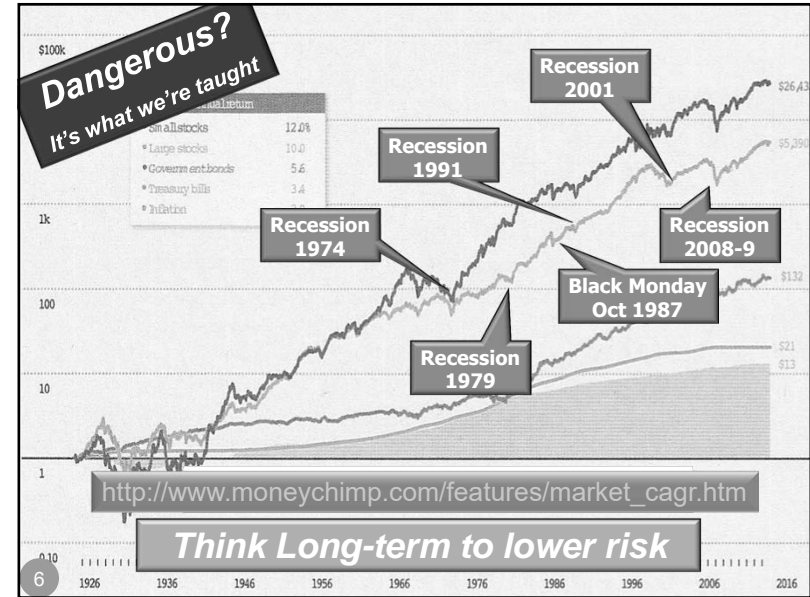
- In 1975 85% of workers had a workplace retirement plan—60% in the early 1980s
 - Provided by company or labor union
- Today (2018): 2%
 - Most companies converting to 401(k) plan, etc.
 - Small matching contribution from company
- *YOU'RE ON YOUR OWN*

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Where to invest:

- Stock market offers the highest return
 - Managed mutual funds?
 - Don't beat the market—or even match it
 - Index funds
 - Always ~ match the market
 - Individual companies?
 - Can beat the market
 - Not for the average investor

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Those with their first paycheck (and the average investor)

- Invest in an index fund:
 - S&P 500
 - Dow Jones Industrial Average
 - NASDAQ 100
- (Buffett's 10 year challenge to hedge funds)

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Retirement: **MONEY & Time**

- Questions that require an answer:
 - How much am I spending?
 - How much will I need?
 - How long will I need it?
 - When should I start it?

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Retirement Planning

- Budget form – what am I spending
- Spreadsheet analysis – what do I need
 - How long will I need it
- Additional Income sources – social security
 - Estimated Social Security payments calculator
 - Life Expectancy calculator

<http://www.socialsecurity.gov/planners/lifeexpectancy.htm>

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How much do I spend

	January	February	March	April	May	June	July	August	September	October	November	December	Ann Total
Actual Income	\$6,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$6,000
Actual Cost	\$3,690	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$3,690
Actual Balance	\$2,310	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$2,310
	January	February	March	April	May	June	July	August	September	October	November	December	
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	
Monthly Income													
Income 1	\$5,000												
Income 2	\$1,000												
Other													
Total	\$6,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Housing	\$2,000												
Rent													
Electricity	\$75												
Heat	\$70												
Phone	\$25												
Water/Utilities	\$60												
Cable & Internet	\$150												
Maintenance	\$50												
Insurance	\$40												
Total	\$2,470	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Transportation													
Vehicle Payment	\$400												
Insurance	\$100												
Fuel	\$100												
Maintenance	\$30												
Other													
Total	\$630	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Food													
Groceries	\$200												

How much did I spend

<http://bob-adams.net/retirement>

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2. How much will I need? – Specifics

What income will you need annually
(Double it every 24 years)

Total Amount needed in 401(k), Roth IRA

At age 35 – 1 X current gross income

At age 45 – 4 X current gross income

At age 55 – 7 X current gross income

At age 67 - 10 X current gross income

An excellent retirement calculator

<https://communications.fidelity.com/pi/2015/retirement/>

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How Long Will I Need It: Longevity Calculator

<http://media.nmfn.com/tnetwork/lifespan/index.html#13>

- Detailed and fun—no email address (recommended)

<https://rslic.metlife.com/lic/corpLongevity.do>

- Medium detailed—no email address

<https://www.livingto100.com/calculator/start/1>

- Detailed—requires email address

<https://apps.bluezones.com/en/vitality>

- Detailed—requires email address

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Online APS:

- Type in your spending and income
- BudgetSimple analyzes your finances
 - Shows spending patterns—where your \$\$ are going
- Monitor bills, bank accounts, credit cards
 - Alerts you when payments due and funds are low

www.budgetsimple.com
Android - iPhone

www.check.me

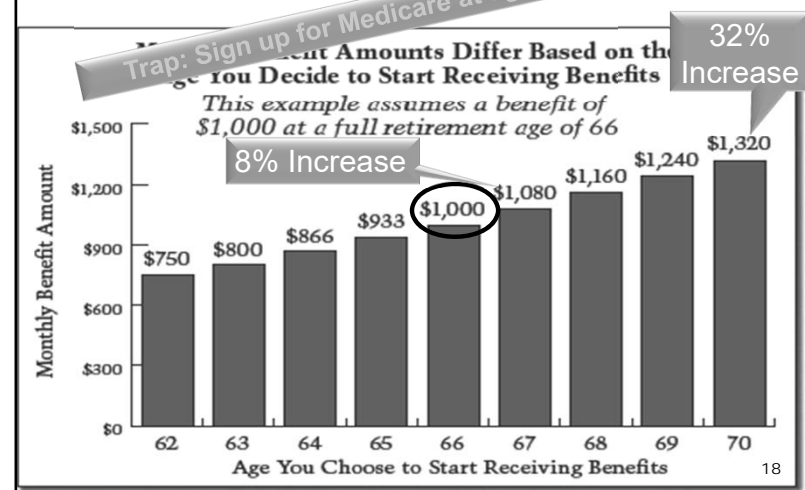
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401(k): Cost

- 401(k) fees. 0.78% mean average – If over 1% complain to your company
- 38% didn't think they pay a fee
- 50% didn't know they paid a fee
 - Fees: Mutual Fund fee, Company fee

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Soc Sec—When to Start:



3. Common sense letter:

Write a letter to your spouse and children containing instructions

- Funeral arrangements and wishes
 - Resuscitate instructions
 - What's to be done with your body
- Where are important records kept
 - Organize & centralize them
- Safe deposit box? – how to access
- Financial advisor name – phone
- Access codes – Passwords???
 - Lock 'em up but provide access

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Common sense letter:

- List banking accounts – Credit Cards
 - Access codes - Passwords???
- List your bills and how they are paid
 - How to stop automatic payments
- List loans – if any
 - Contact name & phone
- List brokerage and savings accounts
 - Contact name & phone
- How to contact other investment accounts

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Common sense letter:

- List insurance policies
- Prepare Will, POA for health & financial
- Have a family financial meeting
- Set up a Trust
 - Probate can be expensive – 3%-5% of inheritance
 - Probate can substantially delay closing estate
 - Probate is public
- Health Care Directive –
 - Search online for: “Health Care Directive your state”
- Meet with your heirs and “talk”

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Blanks expand--

Letter to my heirs: (each box will expand to accommodate comments and information)
Attach this form to your letter

Where a hard copy of records can be found:

Social Security number and birth date (both if married)

If a veteran—service number and where discharge is located

ASSETS:

Real Estate and where deeds are located

Automobiles and where titles are located

Jewelry, art, etc. and location

Other assets

LIABILITIES:

Mortgage and contact information

Other debt—with contact information

OTHER INFORMATION:

Life insurance policies and contact information

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[www.bob-adams.net/handouts & info](http://www.bob-adams.net/handouts&info)

Family Advice: What to do when a loved one dies...

- Immediately send death certificate by certified mail to 3 credit reporting bureaus.
 - Experian
 - Equifax
 - TransUnion
- Request a “deceased alert” be placed on each credit report

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Family Advice: What to do when a loved one dies...

- In obituary do not provide deceased:
 - Date of birth
 - Place of birth
 - Last address
 - Workplace
 - Affiliations
- No recommendation of any product or investment scenario discussed in this session is intended—only as a starting point for study.**

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Must Have Documents

- From Suzi Orman
- “Protection Portfolio” in a box \$90
 - **Will**
 - **Revocable Trust** (Washington state)
 - **Financial Power of Attorney** (Disability/Death)
 - **Healthcare Durable Power of Attorney**
 - <http://www.suzeorman.com/index.php/books-kits/collections-and-kits/must-have-documents/>
 - **Healthcare Directive** (search online-your state)

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Worthwhile viewing:

- A link to a PBS Frontline program (2013) on saving for retirement that should be required viewing for all 20 somethings and beyond. Must viewing.
<http://video.pbs.org/video/2365000843>

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4. IRA Inheritance Traps --

- One wrong move and the entire IRA is taxed rather than tax-deferred
 - Here's what you need to know...

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IRA Traps -- Spouse

- You're a spouse who inherits an IRA
 - “Retitle” it by putting it in your name
 - Or
 - Roll it into an IRA in your name
 - Withdrawals will be required when you reach age 70 ½

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IRA Traps -- Spouse

- If younger than 59 ½ 10% tax on any payout unless: retitled as an Inherited IRA
 - “*John Jones deceased (date) for benefit of Mary Jones, beneficiary*”
 - Can withdraw without penalty
- At age 59 ½ retitle in Mary’s name only
 - If not done—required withdrawals begin when deceased spouse would have reached 70 ½

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IRA Traps -- Children

- Do not roll inherited IRA into child’s IRA
 - Retitle it: “John Jones IRA deceased (date) for the benefit of Bob Adams, beneficiary”
- Each child retitles the IRA
 - At age 59 ½ retitle into child’s name only
- Inherit a 401(k)?
 - Retitle it as an inherited IRA

The Retirement Savings Time Bomb...and How to Defuse it
Ed Slott - Syndicated Columnist

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Medicare Trap -- You

- At age 65 sign up for Medicare
 - (Unless continuing to work for a company with 20+ employees)
 - Delaying may cost more and be delayed
- Delay taking Social Security if possible: +8%
- If you have private health insurance:
 - Check to see how Medicare fits into your plan
 - Do not cancel private plan until Medicare starts

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bob-adams.net/retirement/

RETIREMENT TRAPS and How to care for my heirs

Recommended reading: *The little book of COMMON SENSE INVESTING* -- John Bogle

The end is here – or maybe not yet

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