Perspectives

SPRING 2016 EDITION

Retirement Income Strategies

After a lifetime of saving, making the transition to retirement means facing a whole new set of challenges.

Life Insurance Mistakes You Don't Want to Make

Getting Audited?

Don't Panic!

Basic Etiquette Tips *for Golfers*

Kollar Wealth Advisors

Spring Welcome

Dear Client,

I hope this newsletter finds you well and that you enjoyed a joyous Winter filled with friends and family. We at Kollar Wealth Advisors had an exciting Winter and are looking forward to a bright Spring.

With the volatility and negative sentiment that has been affecting markets this year, we're continuing to carefully monitor our clients' portfolios and making considered changes where we feel necessary. Though we can never predict where markets will go or when optimism will return, we are always looking for opportunities amid the uncertainty.

We know that it's a challenge to stay calm when markets swing, today's investors need to be able to keep emotions in check and focus on long-term goals. As your financial professionals, one of our main jobs is to act as a buffer against the noise and help you make sense of the fundamentals. We will proactively reach out to you if our analysis suggests prudent changes to your strategies are needed. However, if you have any questions about how market movements may affect your strategies, please give us a call; we would be happy to speak with you.

We're excited to present this issue of the Perspectives Newsletter. This season, we discuss the essentials of retirement income preparation and avoiding costly mistakes with life insurance. We also share some tips for etiquette on the golf course.

We sincerely hope that you find this Perspectives Newsletter interesting and informative. We're always looking for ways to educate our clients and give them greater insight into the issues affecting investors today. If you have any questions about what we've covered, please let us know. If you have any family or friends who would enjoy receiving their own copy of the newsletter, please give us their information and we will be happy to add them to our growing list of subscribers.

As always, it is an honor and a privilege to serve you. On behalf of all of us at Kollar Wealth Advisors, thank you and best wishes for a wonderful Spring 2016.

Warm Regards,

Mark A. Kollar, CEPP, CSA, RFC
Founder and President

SUDOKU

	2		5	7	3	1		
		7					2	
6	4	1	2					7
	7			3				
						8		5
3					6	2		9
	1			8	7		4	
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				1				3

SUDOKU

Sudoku or "single number" is a logic-based, number-placement puzzle. The objective is to fill a 9×9 grid with digits so that each column, each row, and each of the nine 3×3 sub-grids that compose the grid (boxes) contains all of the digits from 1 to 9 once.

6					9		4	5
	7		5	2				
	3							
	2					4	7	
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RETIREMENT INCOME STRATEGIES

After a lifetime of saving, making the transition to retirement means facing a whole new set of challenges. Today's retirees face a retirement landscape that is very different from the one their parents saw. Americans are living longer and enjoying active lifestyles, and may need to rely on their retirement strategies for longer.

Recent changes to Social Security claiming rules, rising health-care costs, and turbulent markets make maintaining a comfortable retirement lifestyle more challenging than ever. This article answers some common questions about retirement income preparation and presents you with ideas to guide your own thinking.

WHAT IS A RETIREMENT-INCOME STRATEGY?

A retirement income strategy is designed to allow you to pursue your retirement goals while helping to ensure that your money lasts as long as you do. An ideal income strategy will cover your basic expenses through guaranteed income, hedge against longevity and rising costs by pursuing growth, and give you enough flexibility to adapt to changing circumstances. For most retirees, Social Security benefits and withdrawals from personal savings will account for a significant percentage of their retirement income. To create a personal retirement-income strategy, start by answering two questions:

How Much Income Will I Need to Live Comfortably in Retirement?

To begin to answer that question, you must have an idea of your retirement goals and their associated financial costs. One way to organize your thoughts about income is to think of them as a hierarchy of needs, wants, and dreams.

Classifying your retirement expenses in these terms can help you understand how much income you will need for essential expenses and how much you will want for discretionary expenses that can be reduced in a pinch. If you can cover most of your basic needs through guaranteed sources of income, you have a lot more flexibility to adapt your retirement portfolio to changing market environments.

It also may be useful to use a top-down approach to estimate how much of your current income you will need to replace in retirement. Though many people worry that they will need to replace their entire pre-retirement paycheck when they retire, that's usually not true. Research by Fidelity found that most high-earning Americans only need to replace between 55 percent and 72 percent of their pre-retirement income.[i] Since that estimate is averaged across different income levels and lifestyle goals, it may not be valid for your personal situation. That's one of the many reasons why it's a good idea to work with a professional who can create a customized analysis of your retirement.

Where Will I Get My Income Retirement?

Most retirees depend on a mix of reliable income from sources like Social Security or pensions and withdrawals from their retirement savings. Others supplement those sources with

How much of your current income will need to be replaced in retirement?

PERSONAL DREAMS

A bucket list of the projects, goals, gifts, and aspirations that you dream of taking on if you have the time and resources.

LIFESTYLE WANTS

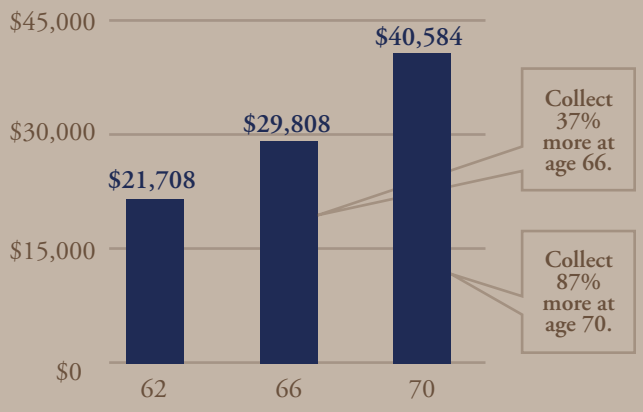
Discretionary expenses that are important to your retirement lifestyle like travel, family vacations, hobbies, education, entertainment, etc.

BASIC NEEDS

Essential expenses like housing, food, healthcare, transportation, taxes, etc.

"High-earning Americans only need to replace between 55 percent and 72 percent of their pre-retirement income to maintain their lifestyle once they retire.[i]"

SHOULD I CLAIM SOCIAL SECURITY BENEFITS NOW OR WAIT?



Hypothetical calculation assumes claimant turned sixty-two in 2016 and earned $125,000 per year. Benefit amount in current dollars and excludes taxes and inflation adjustments. Source: SSA Quick Calculator

income from rental properties, businesses, or encore careers. There is no one-size-fits-all solution; a diversified income strategy should combine enough guaranteed income to cover essential expenses, with potential growth to fight inflation, and be flexible enough to keep up with changing priorities and market conditions. *

Identifying your known sources of retirement income will help you estimate how much you will need to generate from your investments each year. One study found that workers who earn between $50,000 and $300,000 pre-retirement should count on generating about 45 percent of their retirement income from their retirement portfolio.[ii] Again, this is an estimate that may not hold true for your personal situation, but it may be useful as a starting point for analysis.

Another factor to consider is how much income can be generated by your portfolio without running out during your lifetime. While you may have heard about the "4 percent" rule of thumb for annual retirement withdrawals, research suggests that most retirees cannot rely on a simple yardstick for something so complex.[iii] It's very difficult to know in advance what you can safely withdraw from your portfolio each year, since it depends on many interdependent variables, like market performance, expected life span, inflation, and more. As professionals we use sophisticated software and test many assumptions to help our clients prepare for a variety of scenarios.

One major risk that today's retirees have to contend with is the effect of volatility and market corrections on their portfolio returns. If you are forced to withdraw too much from your investments during periods of poor performance, you risk emptying your portfolio too fast. By building flexibility into your strategy and carefully managing risk, you can help reduce the effects of these negative periods on your retirement.

HOW CAN I MAXIMIZE SOCIAL SECURITY BENEFITS UNDER THE NEW RULES?

One of the most important decisions you and, if you are married, your spouse will have to make is when to start claiming Social Security benefits. Since Social Security benefits are guaranteed for life and will increase over time with inflation, they form the foundation of most retirement-income strategies. Married couples have more claiming options to consider, and the right claiming strategy can help increase joint income and leave a larger survivor's benefit to a spouse, though it might mean giving up some income early in retirement or working longer.

The rules of Social Security allow a worker or spouse to begin claiming benefits as early as age sixty-two, but beneficiaries accrue delayed retirement credits for every month they delay claiming until age seventy. By waiting, you can collect up to 8 percent more each year.[iv] Married couples also have the option of allowing one spouse to claim a spousal benefit on the other person's work record if the benefit is larger than their own or they do not qualify for a personal benefit.

Social Security rules recently changed, and two claiming strategies ("file and suspend" and "claim now, claim more later") are going away. Some couples who are already using these strategies or meet age requirements may still be able to take advantage of them. If you believe that you should be grandfathered in under the old Social Security rules, contact your financial professional immediately.

Though the expiration of these two advanced claiming strategies takes away some options for retirees, making the right choice

about when to claim is still critical to maximizing this essential source of income. For most retirees, two main questions will drive their Social Security claiming decisions:

- How long do you and your spouse expect to live?
- Can you afford to delay claiming benefits to accrue additional credits?

In general, if at least one member of a couple expects to live until age eighty, deferring benefits to claim more money later may make sense if you can afford to do so. However, if health issues or family history make a long life span unlikely, claiming benefits earlier may be wiser. If you would like help analyzing your options, a financial professional can run the numbers on different claiming scenarios to help you make a more educated decision.

SHOULD I RETIRE EARLY OR WAIT?

Some retirees are counting the days until they can pack their desks and go. Others identify closely with their work and can't imagine life without a career. Wherever you fall on that spectrum, the choice of when to retire can have an enormous impact on your retirement strategies.

Don't forget about health insurance and medical care as well. If you currently receive health coverage through your employer, you might get sticker shock when you see what it would cost to purchase Medicare or private insurance. Delaying retirement for even a few years can substantially increase your retirement savings and improve your retirement options.

However, there are other lifestyle factors to consider. If you are confident in your retirement preparations and have a strong desire to stop working and start your next phase of life, retiring now might be worth the additional risk. Part of creating a personal retirement strategy is understanding which risks you're willing to embrace.

HOW WE CAN HELP

Saving and investing for retirement is just the first step. Developing an income strategy and maintaining it over time is a very different challenge. If you're not certain about your retirement strategies, you're not alone. A 2015 survey found that just 22 percent of Americans feel very confident about having enough money to live comfortably in their retirement years. [v]

We take an approach to retirement income that is based on an analysis of your personal financial situation and your goals for retirement. We'll work with you to identify sources of income and develop a cash-flow strategy that takes into account the timing of future expenses and balances income with your need for growth to protect against rising costs. If you or anyone you know has questions about building a personalized retirement-income strategy, please contact our office; we'd be delighted to be of service.

Potential sources of income during retirement:

- SOCIAL SECURITY
- PENSION
- WORKPLACE RETIREMENT PLAN
- INHERITANCE
- BUSINESS INTEREST
- POST-RETIREMENT EMPLOYMENT
- RENTAL INCOME
- INVESTMENTS
- INSURANCE PRODUCTS

Footnotes, disclosures, and sources:
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*Diversification cannot guarantee a profit or entirely eliminate the risk of investment losses.

Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

Investing involves risk including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values.

Past performance does not guarantee future results.

Consult your financial professional before making any investment decision.

[i] "Where will my retirement income come from?" Fidelity. https://www.fidelity.com/viewpoints/retirement/retirement-income-sources [Accessed 16 February 2016]
[ii] "Where will my retirement income come from?" Fidelity. https://www.fidelity.com/viewpoints/retirement/retirement-income-sources [Accessed 16 February 2016]
[iii] "Leveraging Behavioral Simulation to Enhance the Four Percent Rule." PwC. http://www.pwc.com/us/en/insurance/publications/assets/pwc-behavioral-simulation-four-percent-rule.pdf [Accessed 16 February 2016]
[iv] "Social Security Benefits." Social Security Administration. https://www.ssa.gov/oact/quickcalc/early_late.html [Accessed 16 February 2016]
[v] "2015 Retirement Confidence Survey Fact Sheet #1." Employee Benefit Research Institute and Greenwald & Associates. https://www.ebri.org/files/RCS15.FS-1.Conf3.pdf [Accessed 16 February 2016]

5 COSTLY LIFE INSURANCE MISTAKES

YOU DON'T WANT TO MAKE

Making a mistake with life insurance can hurt the ones you love most. Fortunately, with some advance preparation and careful thought, you can help avoid these costly errors. Here are some of the most common life insurance pitfalls we see:

1 | Choosing the Cheapest Policy

Everyone wants to get a good deal on insurance, but picking the life insurance policy with the lowest premium might cost you (or your family) a lot more later if it's not the right policy for your needs. A qualified insurance specialist can compare policies and help you get the right insurance without paying more than you need.

Before buying a policy, ask:

Am I getting the right kind of insurance for my situation?

Is the death benefit enough for my family's needs?

Is the insurance company sound and well regarded?

Does it have a track record of handling claims fairly?

2 | Failing to Review Your Life Insurance Regularly

Like everything else in your financial life, life insurance isn't a one-and-done proposition. It's very important to review your policy occasionally to help make sure it still meets your needs. In the worst cases, an out-of-date insurance policy can lead to problems for your family when they need help the most.

The life events that should definitely trigger an insurance review are marriage, divorce, the birth of a child, paying off

the mortgage, and retirement. A comprehensive life insurance checkup should help you answer the following questions:

Is my policy still in force?

Are the beneficiaries current?

Who owns the policy?

Do I have the right kind and amount of insurance for my current and future needs?

Is my policy still competitive?

Am I paying for options I don't need?

Is the insurance company still financially healthy?

If applicable, does the policy term match up with my key financial milestones?

3 | Naming Your Estate as Beneficiary

One of the primary advantages of life insurance is that beneficiaries can receive death benefits quickly. Unfortunately, if you name your estate as beneficiary, your loved ones will lose the ability to collect directly from the insurance company. Instead, they'll have to go through the probate process and might owe estate taxes on the death benefit. Any creditors you have might also be able to lay claim to the benefits if those benefits are part of your estate. In many states, life insurance proceeds are shielded from the decedents' creditors when they go directly to beneficiaries.

Avoid creating trouble for your loved ones by specifically naming the beneficiaries you want to receive the death benefit and updating them regularly. Consider including backup or contingent beneficiaries in case your primary beneficiaries predecease you.

4 | Relying Only on Your Employer-Provided Life Insurance

Many workers get group-term life insurance as part of their employee benefits packages. While a term policy is an excellent perk that can help protect your family, the death benefit provided is often small and usually not enough on its own. The coverage will also typically end if you leave the company, leaving your family without that financial cushion. A private policy has the benefit of being portable and completely customized to your needs.

5 | Failing to Insure Your Spouse

Many people make the mistake of thinking that only primary earners or working spouses need to be insured. They make the mistake of thinking life insurance is all about income replacement. However, take a moment to think about the value of the labor a non working spouse provides. Does he or she:

Serve as the primary caregiver for children or adults?

Work as the family chauffeur?

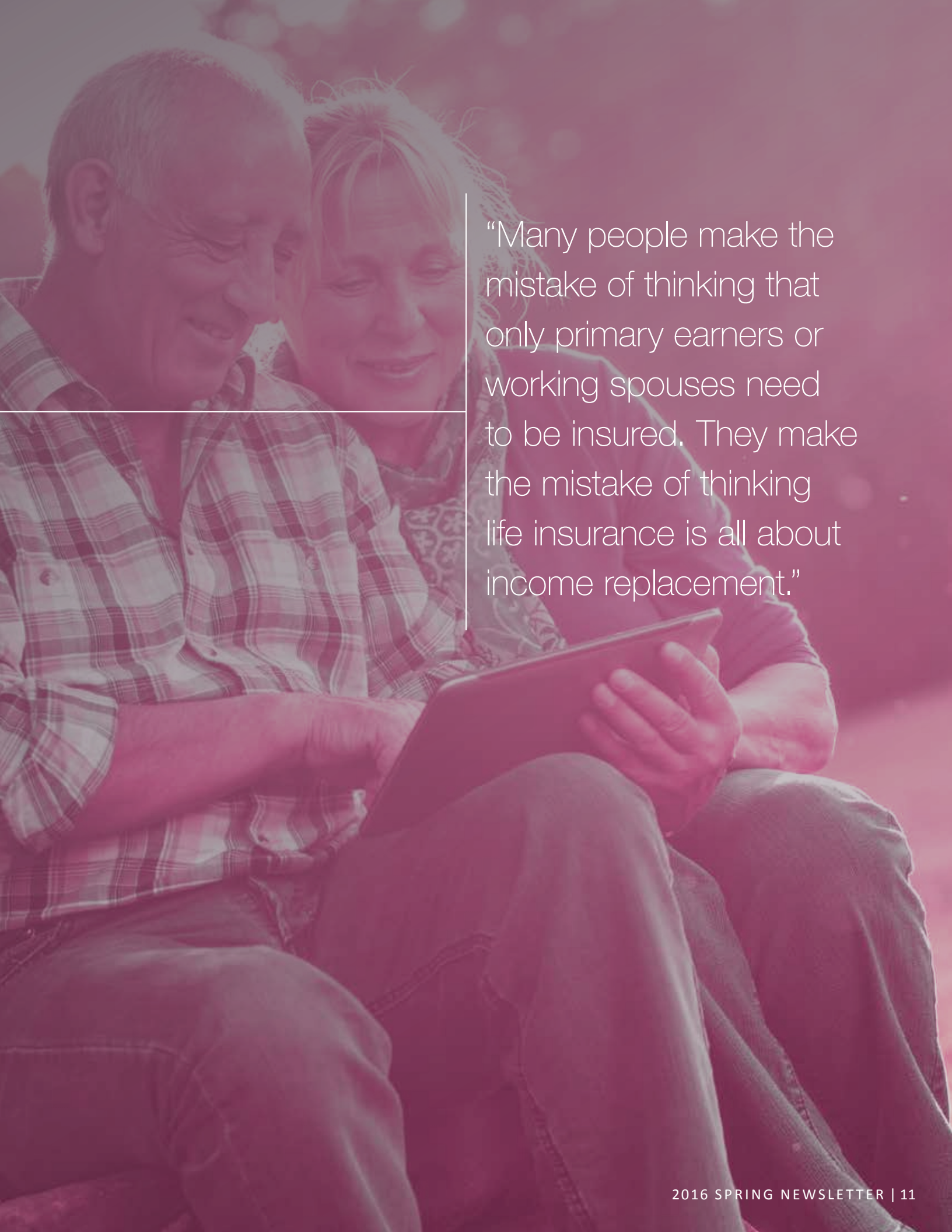
Do laundry and maintain the house?

Run errands?

Though this work might not earn income, it is critical to a family's well-being. In the event of your spouse's death, it's likely that you would have to take time away from work or pay for these services.

Next Steps

Life insurance is a critical tool in your financial life, but mistakes can be costly. One of the benefits of working with a financial professional is that he or she can review your entire situation and make recommendations about the role life insurance should play. If you have questions about life insurance or want to review your current policies, give our office a call.



"Many people make the mistake of thinking that only primary earners or working spouses need to be insured. They make the mistake of thinking life insurance is all about income replacement."

Getting Audited? Don't Panic!

Few things strike fear into a taxpayer's heart like a letter from the IRS. Fortunately, the odds of you ever being audited by the IRS are lower than ever. Recent budget cuts have reduced the number of IRS auditors, and in 2015, the IRS audited 0.8 percent of the individual tax returns it received.[i] In 2016, the odds of an audit are expected to be about the same—just 0.84 percent.[ii]

However, there are a few red flags that can attract attention by the IRS that you should know about:[iii]

Unreported Income

The IRS matches income sources reported by third parties against your tax return. Any unreported taxable income (such as from a forgotten investment account) can trigger an audit. One of the reasons we recommend keeping all of your accounts in one place is to simplify your life at tax time and avoid reporting errors.

Excessive Business-expense Deductions

The IRS uses extensive databases to track typical travel, meals and entertainment, and other expense categories by occupation. Tax returns that show above-average expense deductions might attract attention from auditors. Mileage is a place where many taxpayers get caught; if you're not keeping GPS logs, miles traveled, or cost information for every trip, the IRS may disallow your deduction.

High Income

Unfortunately, higher income not only translates into higher taxes but also special attention by the IRS. In 2015, the IRS audited about 4 percent of returns showing income of $200,000 or more and 12.5 percent of those with income of at least $1 million.[iv]

If you discover that you have been selected for an audit, don't panic. While audits are stressful, there are several things you can do to get through one as painlessly as possible.

Never Ignore a Notice

If you fail to respond by the given deadline, the IRS can automatically adjust your tax liability and send you the bill.

Call in the Pros

If you're being audited, the odds are already against you. Having a tax expert at hand to help you understand the process and handle the auditor's requests can go a long way toward reducing your stress. The IRS can levy a wide range of penalties, and professional advice may also help you minimize what you owe.

Keep Good Records, and Be Ready To Produce Them

The IRS requires you to keep records to support any income or deduction that you claim on your return. Good organization will help you defend your position and may impress the auditor during any meetings. How long should you keep supporting documents on hand? Unfortunately, there's no easy answer, because it depends on your individual tax situation and the relevant statute of limitations. If you have questions about your personal record-retention requirements, give us a call or speak to a qualified tax professional.

Be Honest, But Be Brief

Never lie to an auditor. The IRS treats suspicions of tax fraud very seriously, and you want to reassure your auditor that you are being completely aboveboard in your dealings. But don't volunteer information or talk more than necessary. Don't introduce prior-year tax returns or any other documents unless the auditor specifically requests to see them.

Know Your Position, and Be Prepared To Defend It

Before responding to the audit request, read the Taxpayer Bill of Rights on IRS.gov to know your rights as a US taxpayer. Research any relevant deductions or tax issues, and be prepared to negotiate your position with the auditor and his or her supervisor.

How We Can Help

As your trusted financial professionals, we want to know when you are facing a problem. We are available any time with a sympathetic ear and an objective opinion on your financial issues. We also work closely with a network of tax professionals and accountants who may be able to help you understand the audit process and defend yourself against the IRS.

Footnotes, disclosures, and sources:
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[i] https://www.irs.gov/pub/irs-soi/15databk.pdf
[ii] http://www.usatoday.com/story/money/2016/01/14/irs-predicts-shorter-phone-waits-and-fewer-tax-audits-2016/78800970/
[iii] http://www.kiplinger.com/slideshow/taxes/T056-S001-irs-audit-red-flags-the-dirty-dozen-slide-show/index.html
[iv] https://turbotax.intuit.com/tax-tools/tax-tips/IRS-Tax-Return/Top-Red-Flags-That-Trigger-an-IRS-Audit/INF22648.html

BASIC ETIQUETTE TIPS FOR *Golfers*

Golf is a wonderful pastime, but it can be hard to learn and understand the rules of etiquette expected on the course. Golf course regulations vary, but they are invariably designed to ensure smooth, safe play and an enjoyable time by all. Here are some smart etiquette tips for golfers of all ages and abilities.

• Play as quickly as you can. Ideally, you shouldn't take more than forty-five seconds or a minute to select your club and make your shot. Save time by thinking about the lie, strategizing your shot, and taking practice swings before it's your turn. No one expects a new golfer to be as speedy as an old pro, but keep the pace moving, and be conscious of those coming behind you. If your group is playing slowly, offer other golfers the chance to play through.

• Keep your emotions under control. Your fellow players do not want to watch you throw a temper tantrum, or worse yet, your clubs. Keeping your temper under control even when you're having a bad round is one of the most important rules of golf etiquette.

• Understand (and abide by) the rules of golf. Even if you're just playing a casual round with friends, you should know the basics of how to play each hole. If you are new to the game, schedule a lesson with the club pro before hitting the links for the first time. The background you gain will help you be a better player and a better partner to those in your party.

• Be on time. Respect the commitments of the people you are playing with, and strive to arrive early to warm up before your tee time. If you are worried about traffic, leave a few minutes early to make up for any problems you might encounter along the way.

• Fix those divots. If you are a new golfer, you will probably take a few bad swings as you perfect your technique. Be considerate to your fellow players by fixing the divots and putting the grass back the way you found it.

"Understand (and abide by) the rules of golf. Even if you're just playing a casual round with friends."

• Dress appropriately. Golf might have gotten more casual over the years, but that doesn't mean you should dress like a slob. Show respect to your fellow players and the course owners by wearing clean, well-fitting clothes on the course.

• Stay quiet during play. It's fine to compliment a fellow player on a great shot or enjoy friendly conversation between holes, but don't talk or distract someone during his or her turn. Even in a large group, avoid shouting or being boisterous enough to bother other groups of players.

• Turn off your phone. Nothing is more distracting on the course than a ringing cell phone. If you must leave your phone on while you play, at least set it to silent mode.

Following these simple rules of golf etiquette will help you get more out of the game and make the learning process more fun. By the time you are an experienced golfer, you can use your knowledge to help other newbies to the sport get off on the right foot.

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