

Tax Strategies for Ordinary People

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0314118-00001-00

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**Published by:
CreateSpace Independent
Publishing Platform**

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Published in the United States of America

140902-001.2

**ISBN-13: 978-1975777722
ISBN-10: 1975777727**

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Introduction

“How you save and invest today will determine your income tax bill in the future.”

~Jeff Palmer

One of the things I find most concerning is when people retire completely unprepared. In a recent study it was concluded, 82% of pre-retirees have absolutely no retirement income plan*. When you consider 8,000 baby boomers turning age 65 every day over the next 16 years, it's a huge concern that people are so unprepared. As Stephen Covey once said, "You must plan with the end in mind." This is very accurate statement regarding sustainable retirement income stream that must last a lifetime.

In preparing a retirement income plan, you must consider how assets are allocated due to the potential tax pitfalls that can occur when you begin harvesting income from your investments. Because the way you save and invest today will determine your income tax rate in the future. By allocating appropriately, you can enhance your retirement income by drastically reducing income taxes in the distribution phase of your retirement, in turn improving your lifestyle. Isn't retirement all about lifestyle?

I wanted to write this book to help people improve their retirement years. From my 25 plus years of experience, few people are prepared for retirement. Most individual's retirement nest egg is inadequate to sustain a 20 to 30 year retirement. I'm concerned

*Fidelity Retirement Redefined, 2012

that people are going to run out of money during their lifetime due to various factors such as the escalating cost of health care, a long-term care event, over spending, increased taxes, inflation, sequence of return risk, and poorly chosen investment allocations. This is most frightening when you consider that many people will run out of money during the most vulnerable stage of their life. I feel it is my life's calling to help educate people on how to create sustainable tax efficient retirement income streams that will last a lifetime. I hope this book will be enlightening and helpful as you pursue a secure retirement.

Source: Fidelity Retirement Redefined, 2012 *

Source: American Association of Retired Persons, 2011 **

Chapter 1

Be Prepared!

"For I know the plans I have for you," declares the Lord, "plans to prosper you and not to harm you, plans to give you hope and a future."

~Jeremiah 29:11

For many people, the dream of Financial Independence is doing "what I want, when I want and how I want within reason." The younger you are, the bigger the dream! To most people, financial independence means you are no longer bound by the clock of an employer. You have the time, money and health to pursue personal interests, travel, enjoy hobbies, spend time with friends and family, volunteer in organizations without worries.

Life in the future is going to be awesome! This pleasurable dream of financial freedom becomes a nightmare for many Americans due to their lack of planning and financial discipline. The retirement grenade as I call it explodes when individuals underestimate the dangers that loom in retirement planning. Contingency planning for the "what if's" is necessary in War and it's equally as important in preparing for retirement.

Every American has the freedom to pursue happiness and a better life for themselves and their family. To make this possible, it will take planning and paying attention to the details in order to secure your

retirement. A disciplined savings plan during the accumulation years combined with strategic tax planning will help achieve a secure retirement. Unfortunately, many individuals under save for retirement. The consequence is that for the second half of their life, they will pay the price for their misgivings. Many simply don't understand the need to be financially savvy early in life in order to have a better life in the future. No one ever wants to be broke in their retirement years. Unfortunately, many will retire broke while others will barely be able to meet their needs. There is a lack of understanding that due to poor money habits and lack of direction will put them on the glide path for retirement destruction. A secure retirement is not a right; it comes with hard work. You can change your direction in life with guidance and discipline at any age. However, you must be willing.

I believe some of the greatest lessons in life come from observing people in what to do and what not to do. You can learn something from everyone.

This book has been written based off of those personal and professional experiences working as a financial planner with individuals on all economic fronts. Millionaires definitely do things differently than non-Millionaires. Those who have secure retirements definitely do things differently than those who do not.

Retirement Landscape

As I examine the retirement landscape, more and more people are becoming dependent on government benefits such as social security and Medicare with little in the way of savings to last them a lifetime. This dependency is at the back drop of potential cuts in the future as the Federal government attempts to deal with large deficits that may swell even bigger as the last of the Baby Boomers enter retirement. To fund this burden, one would surmise that the government may increase taxes in the future to deal with this problem. Being tax savvy with your investments may have an even greater importance in the future.

There is a misconception on how much money it takes to be financially independent during retirement. Building a retirement budget and pre- planning for contingencies such as long-term care events, higher taxes, inflation, sequence of return risk, etc. is essential in obtaining the answer to this complicated question. I find that people underestimate the amount of retirement assets needed to maintain a 20 to 30 year retirement.

When my grandfather retired at age 65, his life expectancy was only 76 years of age. Therefore, when he died at age 76, it didn't take a lot of funds to maintain an 11 year retirement. However, he didn't realize my grandmother would live to age 96. She went through their life savings and became dependent upon the charity of her kids to help provide for her care. People don't realize how much money they must accumulate to live for a long period of time without employment income. So squeezing every dollar from the tax "turnip" for retirement is very important.

Few people have ever heard of the information I am going to share with you in the following chapters, especially when it comes to dealing with tax issues in your retirement income years. By applying the principles in this book, you should be able to save substantial tax dollars helping reach your goals more effectively and efficiently for retirement.