ALPHA WEALTH GROUP

5 Simple Steps To A Stress-Free Retirement

How can anyone disagree with the idea that simple is good? Especially when simple can work. How many of us through our life have heard, "Why are you making it so complicated?" This idea of simplicity can apply to your retirement plan. Today we are bombarded by what I like to refer to as noise. Information is available like never before. I believe that the financial industry I work for is partially to blame. In response to this, I have put together a simple, comprehensive 5 step that accomplishes two things, it's simple and it works. Life is full of surprises, but your retirement should not be one of them.

1. Creating Income You Won't Outlive

Studies show most people underestimate their life expectancy. According to the annuity 2000 mortality tables, the fact is, if you're a 65-year old man, there's a 50 percent chance you'll live beyond age 87. If you're a woman, there's a 50 percent chance you'll live beyond age 90. And if you're married, there's a 50 percent chance that you or your spouse will live beyond the age of 94. Outliving income consistently ranks among the biggest concerns of those nearing or in retirement. The last thing anyone wants, is to be full of life and out of income. The traditional three-legged stool; savings & investments, social security and pension plans is wobbly. What can we do to prop this stool back up and maximize the income from each supporting leg?

Savings & Investments

The days of placing your investments in a bank account with an interest rate of 4% to create the income you need with little to no risk are long gone. The problem that confronts us is how to create income, grow assets and minimize risk all at the same time. While it might seem to add risk, most studies suggest that this requires a certain level of stocks in your portfolio. What is the appropriate percentage of stock and bonds? One study ("Bear Market Strategies: Watch the Spending, Hold the Stocks, a study by T. Rowe Price, in AAII Journal) found that, for individuals withdrawing funds each year from their portfolio, the probability of not outliving retirement resources was maximized when initial withdrawal rates were kept below 5% (with subsequent withdrawals increasing with inflation). For a 4.5% initial withdrawal rate, the probability was maximized with portfolios consisting of 40% stocks and 60% fixed income (including both bonds and cash) over a 30-year time horizon, while for a 4% initial withdrawal rate, the probability is maximized with an allocation of 30% stocks and 70% fixed income.

PORTFOLIO SUCCESS RATES

30-Year Time Horizon

Stock Exposure	4.5% Initial Withdrawal Rate — Cash Exposure 10%	20%	30%	4% Initial Withdrawal Rate — Cash Exposure 10%	20%	30%
0	60%	50%	39%	88%	83%	77%
10	70%	63%	53%	92%	89%	85%
20	77%	71%	64%	93%	91%	88%
30	80%	75%	70%	93%	92%	89%
40	81%	77%	73%	93%	91%	89%
50	81%	78%	74%	92%	90%	88%
60	81%	79%	76%	91%	89%	88%
70	81%	79%	76%	90%	88%	87%
80	80%	78%	—	89%	87%	—
90	80%	—	—	88%	—	—

25-Year Time Horizon

Stock Exposure	4.5% Initial Withdrawal Rate — Cash Exposure 10%	20%	30%	4% Initial Withdrawal Rate — Cash Exposure 10%	20%	30%
0	91%	88%	85%	99%	99%	98%
10	94%	92%	89%	99%	99%	99%
20	95%	93%	91%	99%	99%	99%
30	95%	93%	91%	99%	99%	99%
40	94%	93%	91%	99%	98%	98%
50	93%	91%	90%	98%	97%	96%
60	92%	90%	89%	97%	96%	95%
70	90%	89%	87%	95%	95%	94%
80	89%	88%	—	94%	93%	—
90	88%	—	—	93%	—	—

Table shows the success rates for various portfolios with indicated allocations to stocks and cash, with the remainder invested in intermediate-term bonds. Success rates indicate the percentage of times the portfolio was able to maintain the annual withdrawal rate throughout the indicated time horizon, based on 5,000 simulated market scenarios. Portfolios are rebalanced annually. Amounts withdrawn are the percentage amounts indicated as a percentage of the initial portfolio value, with 3% increases in that amount annually for inflation.

Source: T. Rowe Price Associates.

Also, don't rely on one asset class to provide income. You may want to consider taking a multi-asset income approach. For example, consider using a combination of government bonds, corporate bonds, preferred securities, REITs, and dividend-paying stocks, not relying too heavily on any one asset class while creating a reasonable yield.

Maximizing Social Security

Social Security's Handbook has 2,728 rules governing its benefits and thousands of explanations of those rules in its Program Operating Manual System called the POMS. It has been estimated that there are millions of combinations for each spouse to take benefits. The traditional retirement benefit can begin as early as age 62, deferred until age 70 or taken anywhere in between. For ever year you defer, a delayed retirement benefit increase of 8% is applied to your benefit payment. To put in perspective, if you deferred your benefit to age 70, it would be 76% higher than your benefit at age 62. Taking your benefit earlier locks you into a lower benefit for the rest of your life. If you live a long time this can impact you and your spouse negatively. Keep in mind, the higher benefit goes to the surviving spouse. On the other hand, if you take benefits early and you do not live to life expectancy, you will have received more social security or cumulative benefit if you take them sooner. The reality is no one knows how long they will live, but consider health, family history and existing life expectancy tables. If one spouse has a much higher benefit than the other, you may want to give more weight to deferring the larger benefit as it will be paid until the death of the last surviving spouse.

The other factor in determining when to take benefits is the amount that will be taxed. There are certain income levels that expose your benefits to income taxes. Up to 85% of your benefits can be exposed to income taxes. Because tax-deferred retirement accounts are taxable to you and can affect the amount of social security that is taxable to you, you may want to consider deferring your benefits while you use the tax-deferred accounts for income. This can accomplish a couple things. First, your ultimate social security benefit will be higher for your lifetime since you deferred and second, required minimum distributions behind age 70 will be less.

Speak with your advisor about some of these ideas. They may be able to run a number of scenarios for you that illustrate the amount of cumulative benefits you will receive depending on when you take your benefits. Software is also available through a number of companies you can find online.

Pensions

According to the Pension Benefit Guaranty Corporation, in 2005 only 20% of the U.S. workforce was covered by a pension plan. This number has only gone down since. If you have a pension plan make sure you understand the survivor benefits. If you are married, what happens to the benefit if you predecease your spouse? Is the pension cut by 25%, 50%? Do you need to purchase life insurance to cover any shortfall?

If you do not have a pension, consider using an annuity as part of your income plan. There are annuities available that offer a withdrawal benefit that increases every year you defer and will be paid out to you during your lifetime. Unlike an immediate annuity, you can start and stop withdrawals any time and have access to the principal. You may even have an option of setting up a joint-life payout that lasts during both you and your spouse's lifetime.

2. Minimizing Investment Risk

Just because you own a number of different asset classes, funds or stocks, does not mean you are diversified. We found this out in 2008. Additional items to consider when constructing your investment portfolio is to determine what the alpha or risk-adjusted return is, the beta or exposure to market movements and what the correlation coefficient is between investments you hold? These are statistical measures not based on opinion. If you are working with an advisor, ask them to provide this information to you. They can provide valuable insight as to where exactly your investments stand relative to your objectives.

You may also want to consider using a fixed-indexed annuity. They provide principal protection with exposure to certain market indexes. These accounts cannot lose principal. Typically, you either receive growth on the account up to a cap or there is an uncapped amount of growth you receive above a certain percentage. Either way, these types of products have a reset feature that will lock in gains over a 1, 2 or 5 year period that can never go down.

Regardless of how you ultimately structure your portfolio, it should be done with a complete assessment of your overall financial picture and what other sources of income you have. You may also want to confer with a retirement specialist to help in the process.

3. Controlling Taxes

We hear so much about investment diversification, but how many of us are practicing tax diversification or forward tax planning? What are you doing to minimize taxes year in and year out and into the future?

There are three general tax categories of accounts: taxable, tax deferred, and tax-free. You can either defer for a year, even years, pay on an annual basis as income and capital gains are created or pay

the tax now and never again. The key difference between taxable, tax-deferred and tax-free resides in when taxes are paid.

1. Taxable accounts – Growth in these accounts typically results in taxes in a given year, as all income is subject to taxes annually, whether it is received or reinvested. One key benefit of the taxable account is withdrawals, which can occur at any time without a tax penalty. In general, equities are more appropriate in the taxable accounts. First off, unless they are sold there is no tax consequence, giving you more control on when you pay tax on gains. Second, capital-gains tax rates, (15% under AGI of $450,000 for a couple) are usually lower than income tax-rates and finally, you are able to deduct losses or offset gains with losses in any given year, giving you additional control.

2. Tax deferred – These are typically referred to as retirement accounts, usually IRAs and 401(k) plans. Contributions are either made pre-tax or a deduction is taken on your tax returns. In other words, no taxes are paid on money going in. The flip side is that every penny you take out in the future is taxable at a tax-rate that may go up. Uncle Sam is your partner on these accounts. If are in a 30% tax bracket, you will need to take out $142,857 to net $100,000. Additionally, to the extent you do not pay taxes on these accounts, your children will pay at their tax rates when the accounts are inherited. Because these accounts grow tax-deferred, (no income-tax until a distribution) it may make sense to hold income producing assets in these accounts. This way, the income produced grows tax-deferred, is not being reported on a 1099 and you are not paying taxes on income you are not using.

3. Tax free – There are 3 places you can put your money and receive tax-free retirement income. A Roth retirement account, municipal bonds and maximum funded life insurance. Contributing to tax-free accounts provides you with tax-free income in retirement, but no deduction today. Additional benefits with a Roth include no required-minimum-distributions, they do not increase tax on social security and they pass to beneficiaries tax-free. Ask your current employer if they offer a Roth 401k. Roth 401ks unlike Roth IRAs, do not have income testing for contributions and the allowable annual contributions are much higher.

Take a look at what type of tax categories you currently hold and what you can do to make the overall plan more tax-efficient. Also, make sure you know your marginal tax bracket (Table 2). Are you in a 15%, 25% or the highest, 39.6%? This is fundamental to

Table 2. 2015 Taxable Income Brackets and Rates

Rate	Single Filers	Married Joint Filers	Head of Household Filers
10%	$0 to $9,225	$0 to $18,450	$0 to $13,150
15%	$9,225 to $37,450	$18,450 to $74,900	$13,150 to $50,200
25%	$37,450 to $90,750	$74,900 to $151,200	$50,200 to $129,600
28%	$90,750 to $189,300	$151,200 to $230,450	$129,600 to $209,850
33%	$189,300 to $411,500	$230,450 to $411,500	$209,850 to $411,500
35%	$411,500 to $413,200	$411,500 to $464,850	$411,500 to $439,00
39.6%	$413,200+	$464,850+	$439,000+

an effective tax plan. If you are contributing to your 401k or IRA, does it make sense to defer at today's tax bracket to pay at a future tax bracket? Or does it make sense to contribute to a Roth IRA or Roth 401k, pay taxes at today's tax bracket to have tax-free income in the future. This is just one of a number of questions you cannot accurately answer unless you know where you stand today. Taxes can be very frustrating and confusing, but it will be worth the effort to take a more active role and work on creating a tax plan. I can't think of a quicker way to give yourself a raise than to keep more money in your pocket.

4. Estate Planning & Legal Documents

Without proper estate planning, there are two potential events; incapacitation or death,that can result in a loss of control, frozen assets, significant costs of money and time, exposure to the probate court system and incalculable emotional stress. Even with the threat of these potentially devastating consequences, 55% of Americans have no will or estate plan in place according to LexisNexis. Having a living trust, financial power of attorney, health-care power of attorney, and pour-over will can alleviate or eliminate all of these potential problems. The living trust can hold title to property and unlike a person, does not die and does not get sick. You can designate a successor trustee to administer it and establish distribution immediately or over a number of years. And, if done properly, is totally private and executed outside the probate court system. The financial power of attorney allows you to designate the individual that can act on your behalf in the event you are incapacitated, without the courts involvement. Consider your IRA or 401k. They have to stay in your name during your lifetime. If incapacitated, these accounts are effectively frozen upon incapacitation. Your signature is needed to sell the home, file your tax return and/or conduct business. The healthcare power of attorney, similarly, designates those individuals who you want to be able to make healthcare in the event you cannot. It

also provides your wishes related to life-sustaining treatment. Simply put, if you don't put proper documentation in place, and make these decisions on who will act for you and how assets are to be distributed upon death, the probate court system will make them for you.

5. Asset Protection

Our investments may be set up correctly, our estate plan is in place and we are doing whatever we can to reduce taxes. Then some unforeseen event comes along and our entire plan is turned upside down.

Pre-Mature Death

Income replacement is one of the more common reasons individuals purchase life insurance. Obviously, the loss of income can be devastating. All too often, many individuals are not aware of what their death benefit is or, the benefit covers only a few years of income. You may be surprised if you really take a look at the numbers. For example, if your income is $150,000 per year and your life insurance coverage is $500,000, you are covering less than 4 years of income. Keep in mind, if the insurance is purchased through your employer, it usually goes away when you leave the company. You may want to consider buying insurance outside of your company that you own directly.

Disability

According to the Health Insurance Association of America, approximately 30% of all people age 35 to 65 will suffer a disability for at least 90 days, and about 1 in 7 can be expect to be disabled for 5 years or more. Disability can result in a loss of income and a complete collapse of your plan. If you have disability coverage through your employer contact your benefits group and find out the amount of the benefits. You can also purchase additional disability insurance outside your company if you want to supplement your employer plan. If you do not have disability coverage you can purchase a plan through a number of different companies. The benefit to paying for it yourself is that the benefits are received income tax free.

Long-Term Illness

More than two-thirds of individuals 65 and older will require some kind of long-term care according to experts. The median annual cost for a private nursing-home room is $91,250 and round-the-clock home care can top $170,000 according to a new study from Genworth Financial, the leading seller of the policies. Keep in mind that Medicare or any type of health care coverage covers skilled care not custodial care. Most of the costs associated with long-term care are not skilled care. Medicaid will only cover costs once you spend down your personal investments to relatively low levels. You should consider obtaining quotes on long-term care insurance to determine whether or not it makes sense for you. There are options available today that will provide return of premium or a death benefit that you may also want to consider.

Liability

We are definitely living in a more litigious society. An auto accident or a slip and fall at your home can result in a lawsuit that is much more harmful than a dinged bumper or tree limb falling on your roof. It can be difficult to determine your level of liability

exposure. If you run a business or own rental property, obviously you have increased liability. In either case, a multi-million dollar liability policy can sometimes be purchased for a few hundred dollars. Also consider, incorporating your business. Rental properties can be held in limited liability companies.

Use this report as a starting point and checklist. Spend the appropriate time on each area and if necessary consult with a professional. At the end of the process, you should be in a position to make the necessary adjustments to make your plan as effective and efficient as possible. You will be also be more informed and educated on all areas of your plan. This in turn will provide the peace of mind and stress-free retirement you deserve. If you would like additional information on any one of the areas covered above, individual reports are available. Please visit our website. www.alphawealthgroup.com or contact our home office at 630-519-4742.

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