Ryan Poage & Co.
Investments | Wealth Management

TAKING STOCK

Second Quarter 2015

816-531-4555

Did The Devil Make You Do It? 8 Retirement Miscues

We're all human, and we all make mistakes. Yet some errors are worse than others, and it's important to try to avoid the kinds of miscues that could derail your retirement.

What sort of mistakes? Of course, these will vary from person to person, but here are eight common foul-ups that often bedevil soon-to-be retirees:

Mistake #1—You have no financial plan for retirement.

Although your plan doesn't have to be carved in stone—and in fact it needs to be flexible—it at least should provide some basic guidelines for your future. A bare-bones plan will look at your potential sources of retirement income and approximate what you can expect to spend—and rough estimates are better than no estimates at all. Figuring out what it may take to live comfortably during retirement is the first step toward getting there.

Mistake #2—You have too much debt.

Perhaps nothing can be more damaging to successful retirement than crushing debt. Avoiding high-interest-rate credit card charges can help you head off the problem. If you spend within your means and borrow judiciously, you'll be able to save more for retirement and won't be burdened by the need to pay off compounding debt.

Mistake #3—You sacrifice retirement planning for education planning.

Saving money for your children's college education is obviously a lofty and worthwhile goal, and starting early can help ease your financial burden when tuition bills come due. But you may not want to make education saving your primary financial priority. Often, parents are able to help pay college bills while still putting away money for retirement, and your kids can help by taking low-interest loans to cover part of their costs.

Mistake #4—You don't keep an emergency fund.

Even if you've been diligent about saving for retirement, remember to expect the unexpected. You might lose your job or face another financial or medical emergency, and having a cash cushion to fall back on can help you avoid dipping into retirement funds—an option that could have short- and long-term tax and financial consequences. The usual rule of thumb is to try to set aside at least six months worth of salary in a rainy day fund.

Mistake #5—You don't have a long-term investment strategy.

You're likely to fare better if you establish a long-range investment plan for retirement rather than trying to boost your portfolio by chasing hot stocks. Time-tested principles such as asset allocation and diversification can help you make steady progress toward your goals, whereas playing investment

(Continued on page 4)

Regulatory Changes Could Create Opportunities

A new financial regulation expected to take effect soon will create an easier path for small, private companies to sell stock to the public. The regulation also provides an easier path for those securities to become publicly traded, an event that over the past 10+ years has become nearly impossible.

If this happens, it is unlikely that large Wall Street firms will become dealers in these stocks because the small trading volume won't generate enough revenue to pay for the stock analysts needed to provide ongoing research. Thus, it would be likely for this market to be less efficiently priced (possibly meaning more instances of stocks trading below the value of the business's underlying net equity value). This could be a gift for level-headed investors, as this is the type of environment that existed in Warren Buffett's early days of investing. Over time, market efficiencies have reduced the frequency of these investment situations. Ironically, the new tech-driven marketplace rules could end up providing opportunities wrapped in 1950s era packaging.

When To Start Social Security?

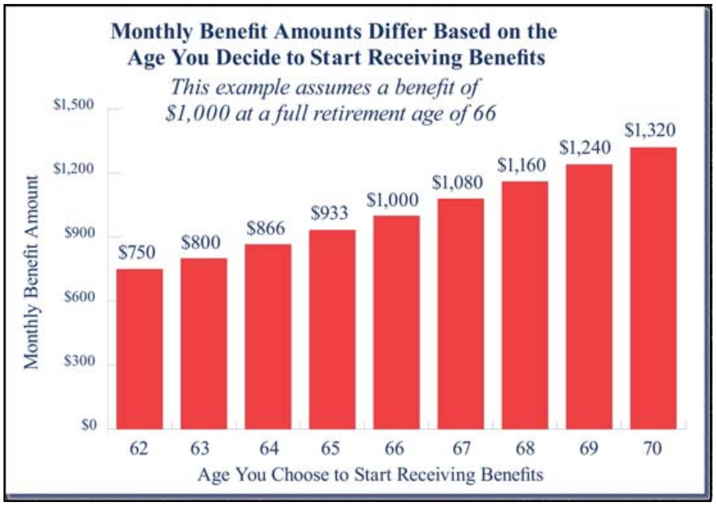
Once you enter your 60s, with thoughts of retirement looming ahead, you face a difficult decision: When should you start to receive Social Security retirement benefits? With some experts arguing that you should begin benefits as soon as possible and others contending that you should wait until full retirement age or longer, the answer to this question is not exactly a no-brainer.

The Social Security Administration (SSA) reminds us that this is a highly personal choice. It depends on numerous factors, including your current need for cash, your health and family history, whether you plan to work in retirement, your other retirement income sources, how much income you expect you will need in the future, and the amount you'll receive from Social Security. There's no definitive right or wrong answer.

The earliest you can start benefits is at age 62, but you'll receive less than you would be entitled to at full retirement age (66 for most Baby Boomers.) However, you'll get even more each month if you wait longer—until age 70 at the latest. When you start will lock in your benefit amount for the rest of your life, although you'll get cost-of-living increases, and there could be other changes based on work records.

The accompanying chart provides an example of how your monthly amount can differ based on the start date for receiving benefits.

As this chart shows, if you're entitled to $1,000 in monthly benefits at your full retirement age of 66, if you choose instead to start benefits at age 62, your monthly benefit will be 25% lower, or $750. Conversely, if you wait until age 70 to begin benefits, the monthly amount jumps to $1,320, or 32% more than the $1,000 you would receive at age 66.



Source: Social Security Administration

Several variables might sway your decision. Waiting longer and receiving more each month could be advisable at a time when life expectancies are increasing and about one in every three 65-year-olds can now expect to live to age 90. Women, who tend to live longer than men, may want to do all they can to maximize their Social Security income. There's also the potential impact of your decision on the rest of the family. If you die before your spouse, he or she may be eligible for payment based on your work history. That amount could be reduced if you opt for early retiree benefits. Also, if you delay benefits, you may need money from other sources.

Finally, consider that you might decide to work past your full retirement age, perhaps on a part-time basis. That's generally an incentive to postpone payments.

Because this is such an important decision, take the time to weigh all of the variables of your particular situation. We can help you sort through the many possible alternatives. ●

Keep Eyes On Estate Tax Proposals

In his 2015 State of the Union address, President Obama laid the groundwork for several significant estate tax changes, which were covered in greater detail in the administration's budget plan for the 2016 fiscal year. Although these proposals are a long way from being enacted, it makes sense to know the key concepts now. Here are several:

Capital gains: When you inherit assets, you currently benefit from a "step-up in basis" to the fair market value (FMV) of the assets on the date of death. Say you receive stock acquired for $5,000 that's worth $15,000 when you inherit it—your basis is $15,000. Sell the shares for that amount and you'll owe nothing in taxes. The $10,000 appreciation in value is tax-free forever.

Under the proposal, this "trust fund loophole," so-called because it's often used in conjunction with trusts, would be closed. Instead, you would owe tax on the difference between the original basis and the FMV on the date of death through a "deemed sale." In our example, that would mean a taxable gain of $10,000. The proposal does allow a taxable exclusion on such gains of $100,000 per person ($200,000 for a married couple).

Estate and gift tax exemptions: This change would roll back the estate and gift tax exemptions to 2009 levels. Thus, the $5.43 million exemption in 2015 (inflation-indexed increases have moved it up from an original $5 million) would revert to a $3.5 million exemption, and so would the generation-skipping tax exemption. And whereas the current exemption can be used for a combination of gifts made while you're alive and at your death, the new $3.5-million exemption would apply only to estates. There would be a separate $1-million lifetime exemption for gift taxes. Finally, the top estate tax rate would be raised from 40% to 45%.

Learn The Latest Tax Traps, Tips, And Tricks

Navigating the maze of investment tax rules isn't easy, especially when the law changes pretty much every year. And while tax-saving opportunities may present themselves, there also are little-known pitfalls that could increase your tax bill. Here are several tax traps, trips, and tricks to think about this year:

Trick: Use long-term losses to offset short-term gains.

When you lose money on an investment sale you can use that loss to offset capital gains that you realize, plus up to $3,000 of ordinary income. But because long-term capital gains are taxed at a maximum 15% tax rate—or 20% if you're in the top income bracket—you're better off preserving such losses to offset short-term gains, which are taxed at ordinary income rates of up to 39.6%.

Tip: Take advantage of higher education tax breaks.

The Section 529 college savings plan is one of the most powerful tools in the tax law. It lets you set aside money in state-sponsored plans and avoid paying taxes on investment growth within your account. Then, withdrawals made for most higher education expenses are completely tax-free. Also, if there's money left over, or if the first child doesn't go to college, you can change beneficiaries or continue the account for a younger child. Yet while this college tax break is open to everyone, other breaks, such as higher education tax credits and a tuition deduction, are phased out for high-income parents.

Tip: Stagger a Roth conversion over several years.

The promise of future tax-free payouts is enough to convince many people to convert traditional IRA funds into a Roth IRA, even though that means paying a conversion tax. But you can reduce the pain of that tax by making a gradual conversion and avoiding the highest tax brackets. For instance, if you're normally in the low end of the 28% bracket, convert only enough to reach the upper reaches of that bracket, without pushing into the 33% bracket. Doing this for a number of years could help you convert all or most of your traditional IRA funds without dire tax consequences.

Trap: Making excess IRA contributions.

Generally, you can contribute up to $5,500 a year to any combination of traditional and Roth IRAs, or $6,500 if you're age 50 or over. However, the ability to contribute to a Roth is phased out for upper-income taxpayers. If you exceed the annual limit and you don't withdraw the extra amount by your tax return deadline, the IRS may hit you with a 6% excess contribution penalty, plus you'll owe tax on the earnings. What's more, the penalty continues to apply for every year you don't take out the excess.

Trap: Failing to take a required minimum distribution.

Once you're past age 70½, you normally must take a required minimum distribution (RMD) every year from your employer retirement plan accounts and IRAs. RMD amounts are based on the value of your account balance and life expectancy tables. To make matters worse, the penalty for failing to take an RMD is equal to 50% of the amount that should have been withdrawn, but wasn't. Instead of leaving matters to chance, arrange RMDs well before the end of the year.

Trap: Breaking the wash sale rule.

The so-called "wash sale rule" prohibits you from claiming a loss on the sale of securities if you acquire "substantially identical" investments within 30 days of the sale. To avoid being washed out, wait at least 31 days to take a loss on the sale of securities you currently own. If you think the price of a particular investment may be about to rebound, you can buy the securities now and wait 31 days to sell your original lot. Note that there's no comparable tax rule for gains.

Trick: Use a thing called a NING.

The odd-sounding name is short for Nevada incomplete gift nongrantor trust. This sophisticated tax planning technique is based on creating a trust in Nevada, which, like just a handful of other states, has no state income tax. This effectively enables trust creators to avoid state income taxes in their home states. As a result, the NING has become a popular way to reduce taxes on sales of business interests and other large capital assets. Several other state variations exist.

These are only a few key suggestions. Huddle with your advisors to develop a comprehensive game plan that maximizes tax benefits and minimizes tax trouble. ●

Grantor retained annuity trusts: With this estate planning technique, you create an irrevocable trust for a specified term, funding it with assets, and then receive an annuity paid to you based on IRS-approved interest rates. Eventually, the remaining assets go to your beneficiaries tax-free.

The president's proposals would curtail the tax benefits by (1) requiring a minimum term of 10 years, (2) imposing a minimum remainder interest of 25% of the assets transferred to the trust, or $500,000, whichever is greater, and (3) prohibiting the grantor from participating in a tax-free exchange of assets with the GRAT. These changes effectively would eliminate future GRATs.

Of course, you shouldn't overhaul your estate plan based on these proposals, but do be prepared to update your plan if it looks as if they may become law. ●

8 Retirement Miscues

(Continued from page 1)

hunches is likely to produce more losers than winners. And taking a smart, deliberate approach is as important for investing the assets in tax-sheltered retirement plans, such as 401(k)s and IRAs, as it is for taxable accounts.

Mistake #6—You underestimate health care costs.

As people live longer and longer—and as growth in health care costs continues to outpace overall inflation—you'll need to allocate a healthy portion of your savings to personal care. Often, health insurance plans and Medicare will cover much less than you've counted on and you'll need to use your savings to make up the difference. What's more, an extended stay in a nursing home could destroy your retirement nest egg. Consider buying long-term-care insurance to help ward off future disasters.

Mistake #7—You don't factor in taxes.

People often disregard the impact that federal and state taxes can have on their retirement savings. For instance, if you've been accumulating funds in a 401(k) plan and traditional IRAs, when you withdraw money from those accounts to pay your retirement expenses those distributions normally will be taxed at ordinary income rates. In addition, whether you want to or not, you'll have to start taking money from those accounts after you turn age 70½. Your long-term plan for retirement needs to take these taxes into account.

Mistake #8—You count too heavily on Social Security benefits.

After you've paid into the Social Security system during your working career, it's only fair that you reap the benefits. But those monthly payments usually aren't enough to live on comfortably, not by a long shot. It's important to view Social Security as only a supplement to other sources of retirement income—from your investments, company retirement plans, and IRAs.

Making any of these mistakes could cause trouble when it's time to retire. But if you know what to look out for you may be able to avoid problems—and the best time to start fixing things is now. ●

RYAN POAGE & CO.
INVESTMENTS | WEALTH MANAGEMENT
PLAZA CORPORATE CENTRE
800 W. 47TH ST., STE. 700
KANSAS CITY, MO 64112
816-531-4555
877-531-4555
WWW.RYANPOAGE.COM