

CREATIVE

Wealth Maximization Strategies*

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Retirement Serenity

For many Americans, retirement is a stressful topic. Surveys repeatedly show a large percentage of US households are nowhere close to accumulating enough assets to enjoy a comfortable retirement. Instead, they live with a series of nagging thoughts about the tenuous nature of their long-term financial future, wondering...

“Will I be able to work long enough to accumulate a comfortable retirement?”

“Will I ever have enough money to retire?”

“Will my money last as long as I live?”

How do Americans deal with this anxiety? Many of them make plans, often very elaborate plans, using historical models, computer algorithms, and risk-weighted projections. It's very technical, sometimes very impressive – and usually inaccurate. This is because even the most sophisticated of these retirement projections are still educated guesses, based on assumptions. If just one assumption proves to be incorrect, the entire plan can unravel.

The shortcomings in this type of retirement planning don't mean all planning is futile. But American households might find greater benefit from a different approach, one that offers not only the prospect of positive results, but also some emotional tranquility along the way. It's not a calculation-driven process, but a classic bit of wisdom that has permeated American culture.

**Grant me the serenity to accept the things I cannot change,
The courage to change the things I can,
And the wisdom to know the difference.**

The three lines above are commonly referred to as the “Serenity Prayer.” Attributed to Reinhold Niebuhr, a 20th century theologian who often used variations of the phrase in his speaking and writing, the prayer has been adopted as a core statement by Alcoholics Anonymous and other twelve-step programs. While the specific words may be Niebuhr's, the philosophy they embody is timeless. The ideas can be found in ancient Greek, Jewish and Buddhist writings, as well as popular culture (for example, when Clint Eastwood, in “*Dirty Harry*” says, “A man's got to know his limitations”).

Accepting Uncertainties, Making Changes

How does the Serenity Prayer apply to retirement planning? Well, it starts with accepting that some issues which will significantly impact your financial well-being are also beyond your control. You can identify these items, but have very limited ability to anticipate, change, or avoid them.

In a July 29, 2013, article titled “5 Retirement Variables Outside Your Control.”

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US News & World Report writer Emily Brandon listed the following items:

- **How long you will live**
- **Investment returns**
- **Inflation**
- **Health care costs**
- **Emergency expenses**

Because we recognize patterns in history – regarding nations, wars, investments, etc. – we are intrigued by the possibility of guaranteeing the future if we can completely comprehend past events. But history also shows the repeated introduction of elements unknown to previous generations. Thus, because the future will always include new and unanticipated events, the past cannot be used to eliminate future uncertainty.

Yet in formats that attempt to guarantee a secure future by making better projections/guesses, the first three items are foundational assumptions that determine a plan's recommendations and results. But while length of life, returns and inflation will definitely impact one's retirement, we cannot know with certainty how they will unfold. This uncertainty is further complicated by the last two items on Brandon's list, because they are likely but random events, whose occurrence can

completely upend these assumptions. To stubbornly continue to make plans for the future based on these factors beyond our control is a recipe for frustration and turmoil.

Accepting that many factors in retirement are outside our control does not mean we are powerless to make our financial future better. But rather than spend an inordinate amount of time trying to project results, we might be better served by focusing on what can be managed in the present.

A recent forum of financial professionals issued a single-page document titled "**Uncommon Steps to Financial Success.**" They are:

- **Organize your financial life.**
- **Maximize financial protection (insurance).**
- **Save 15-20% annually.**
- **Accumulate short-term liquidity equal to one year of net annual income.**
- **Carry no short term debt.**

Many households may not be able to rearrange their financial assets to immediately align with these recommendations, but these items are specific objectives which can be achieved through planning and execution – these are things we can conceivably control. And while there are no guarantees about the future, it is obvious that anyone whose present circumstances match these five criteria has good reason to be optimistic about what lies ahead. Consider:

The benefits of a well-organized financial life should be self-evident. But quite often, the details and urgency of everyday living make financial organization an infrequent and haphazard activity. We prepare financial statements only when we need to borrow money, or our children request educational assistance.

Insurance is one of the best ways to respond to financial uncertainties in life; it is cost-effective, and allows assets that might have been held in reserve (as "self-insurance") to be applied to more profitable opportunities. The general public has an ambivalence toward insurance, and often tries to minimize or avoid using it. But under-insuring increases one's exposure to financial calamity.

The ability to save 15-20% of one's annual income indicates a balance between one's current lifestyle and his/her ability to sustain that lifestyle in the future. This is also an indicator of financial self-control, and emotional stability regarding money.

A year's worth of income in liquidity makes the near future a lot less anxious, even if it is unknown. A decline in income, a loss of employment, an illness, a personal problem or other unforeseen crisis - all of these events can be better addressed when substantial assets are readily available.

Short-term debt, especially unsecured debt like credit cards, is typically the most expensive form of borrowing, and consumes a proportionately large percentage of current income. Having to use this type of financing is often an indication of financial imbalance, or misplaced priorities.



The Difference

When assumptions are used to derive financial decisions, a less-than-desirable side effect is the need for constant re-assessment.

- Are our assumptions still accurate?**
- Are we on track?**
- Has our "magic number" changed?**

These types of questions have no definitive answers; instead, there are vague "feelings." There may be a false sense of security ("We've got it made."), or despair ("We'll never be able to retire."), or confusion ("You mean we have to change again?"). Because of the uncertainties inherent in the foundational assumptions of needs-based projection models, anxiety is an almost inevitable by-product.

In contrast, the **Uncommon Steps to Financial Success** use no assumptions about the future to determine financial decisions. The focus is on getting the present in order, and believing that maintaining this healthy condition will result in a prosperous and secure financial future. The standards for financial success are clearly defined, allowing individuals to make precise plans and take specific action. Granted, any type of change can be stressful, but at least the stress of uncertainty doesn't have to be added to the mix. It may be counter-intuitive, but making positive changes to your present financial condition is quite likely the most practical and stress-free way to address the future.

- **DO YOUR FINANCIAL PROCESSES GIVE YOU A SERENE OUTLOOK ON YOUR FUTURE?**
- **OR DOES YOUR PRESENT FINANCIAL CONDITION NEED MORE ATTENTION?**

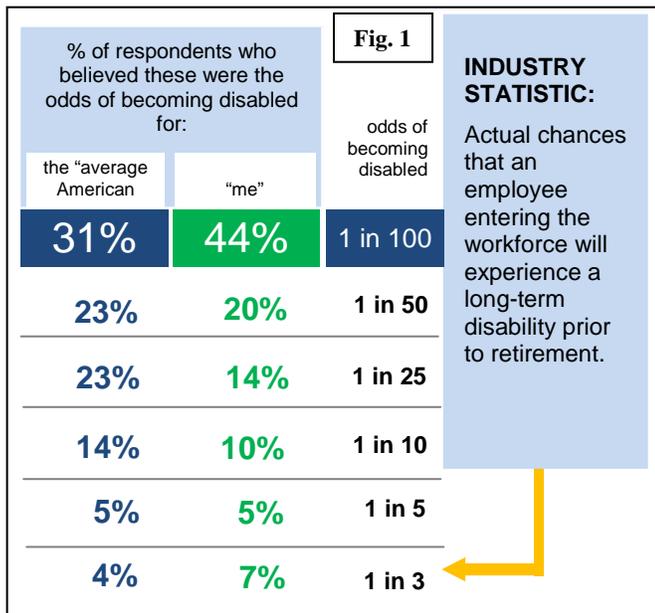
Disability in Lake Wobegon



“I don’t think it will happen to me – I’m certainly not planning on it.”

In his long-running radio program *A Prairie Home Companion*, host Garrison Keillor reports events from the fictional community of Lake Wobegon, Minnesota, a place where “All the women are strong, all the men are good looking, and all the children are above average.” Keillor’s remark about the human tendency to overestimate our achievements and capabilities in relation to others isn’t just a bit of dry humor; there is plenty of research to back it up. In fact, the “Lake Wobegon effect,” where all or nearly all of a group claim to be above average, has been documented in studies of drivers, executives, entertainers, college students, even parents. Some of our perceived superiority is probably a reflection of a healthy self-esteem – we like ourselves, and what we do. But there are times when the Lake Wobegon effect indicates a startling disconnect from reality.

A 2010 survey commissioned by the Council for Disability Awareness asked individuals an interesting pair of “Lake Wobegon” questions. The first asked them to assess their risk of becoming disabled during their working lifetime. The second asked them to assess the risk of *others* becoming disabled. The results were quite interesting, both in terms of what people perceived about themselves, and in relation to the realities of disability (see Fig. 1).



In general, respondents believed other people (i.e., “average” Americans) were more likely to experience a disability than they were. As the survey put it, a common response was **“It’s likely to happen, but not to me.”** This is the Lake Wobegon effect, and it’s not surprising. But another finding is quite startling.

Almost two-thirds of those surveyed rated the odds of becoming disabled for three months or more at 2% or less (those who selected either “1 in 100” or “1 in 50”). Yet private studies and government statistics indicate the “actual chances that an employee entering the workforce will experience a long-term disability prior to retirement” is 1 in 3. This represents a huge gap between perception and reality. What’s going on?

It appears the general public has a limited or misinformed perspective on what disability looks like, and how or when it occurs. Many associate an incident of disability with an accident, such as a car wreck or a workplace injury. Yet the CDA’s 2012 review of claims found illnesses, “including muscle and back problems, cancer, mental disorders like anxiety and depression, and heart disease,” comprised 90 percent of all disabilities. That seems like a pretty wide gap between perception and reality.

Other portions of the CDA’s survey support the conclusion that most people are ignorant regarding the true nature of disability. For example, the study found “Those who knew someone who had been disabled were much more likely to think there was a higher chance they’d become disabled.” Unless they have some personal experience with disability, most people don’t have a clue about what it looks like.

Real-life Disability

To reinforce the realities of disability, an insurance brokerage firm in August 2013 released a brief description of select individuals who secured individual disability income (DI) insurance through the company and were now disabled and receiving benefits. The list is not a comprehensive report, but the information reinforces both the prevalence of illness as a principal cause of disability, and the fact that it can occur any time, even when one is younger (see Fig. 2).

Occupation	Age at onset of disability	No. of years owning DI ins. before onset	Gender	Cause
Computer Programmer	30	2.0	F	Pregnancy Complications
Accountant	31	6.3	M	Severe Bipolar Disorder
Endodontist	32	3.5	M	Autoimmune Disease
Dentist	33	4.1	F	Multiple Sclerosis
Financial Professional	34	2.7	F	Autoimmune Disease
Podiatrist	34	2.4	F	Acute Back Pain

NOTE: It is important to note that every person on the list was healthy enough to obtain disability insurance, which would mean there were no red flags indicating any of these individuals were likely to succumb to these conditions. Yet, in a very short time, they encountered debilitating conditions.

Your Response: To Survive or Overcome?

Statistics clearly indicate the possibility of disability is high enough and the potential financial hardship great enough to require your attention. How will you respond to the threat of disability?

There is a broad spectrum of possible solutions, with one end focused on minimizing costs and the other on maximizing income protection. Participation in disability insurance plans provided by Social Security is mandatory, eligibility is narrowly defined, and the benefit payments are often a small fraction of one's pre-disability income. Workers' compensation plans are exclusively for disabilities that occur in the workplace. Group insurance, typically offered by employers, provides greater benefits, usually under less stringent definitions of disability but is not "portable" – if you leave your employer, you can't take the group disability insurance coverage with you. Personally-owned disability insurance is portable, and allows the individual to customize his/her disability package and maximize their income protection.

The type of disability protection you choose is largely a reflection of how much you value your ability to generate an income, and how strongly you want to preserve that ability. For some people, disability, if it occurs, will be a life-ending event in terms of financial aspirations. Financial dreams are done, and one's future orientation will be preoccupied with survival. Others want the resources to treat disability as a momentary setback, from which they can recover or adapt. They want to preserve their financial dreams and, as much as possible, protect not only today's income, but their future earning potential as well. The cost of disability insurance certainly factors into the decision, but even so, the response ultimately hinges on one's perception of his/her financial value.

When you comprehend the true nature of disability, both the likelihood of occurrence, and what it looks like, it's a hard topic to ignore. The hard work and sacrifice you have invested in building your income is worth protecting. Even if you have already secured some disability benefits, most individuals (particularly high-income professionals) would benefit from a review with a disability insurance expert.

By the way...because they are all above average, everyone in Lake Wobegon would have a maximized disability protection program (even though they are, in their estimation, the least likely to be disabled).



A Good Time to "Zero In" on Debt Reduction?

A Good Time to "Zero In" on Debt Reduction?

Stamped in big bold letters on the envelope, the phrase "ZERO INTEREST" or "PAY 0%" catches your attention. You have just received a "teaser" from a credit-card company, an offer to transfer an existing card balance to a new lender, and have zero interest applied to that balance for a specified period.

You may be receiving a lot of these offers in the near future. Hungry to attract new customers in a time when many American households are reducing their discretionary borrowing, an August 27, 2013 *Wall Street Journal* article reports "Financial companies that issue plastic are flooding mailboxes and email accounts with offers that allow new customers to transfer their existing credit-card balances from other institutions without paying interest for as long as two years." These offers, known as 0% balance transfers, are used "to reel in new customers with the lure of not paying interest on current balances, and then get them to rack up interest-bearing charges on new purchases."

Depending on your financial circumstances and habits, a 0% balance transfer may represent a great opportunity to reduce the costs of previous borrowing decisions, and speed up your transition to better financial footing. Having clear objectives and guidelines can make this happen, but remember: the credit-card company's objective in offering the 0% balance transfer is to acquire another customer who "racks up interest-bearing charges on new purchases."

Here are some issues and strategies commonly considered in conjunction with a 0% balance transfer:

Understand the transaction costs. Most credit-card institutions impose a transaction fee on balance transfers, typically 3% of the amount transferred. If in return you receive 12 months of interest-free payments, the net cost of the transaction is 3%. This rate is probably lower than the monthly interest applied to an existing card account, but remember: a 0% balance transfer is not "free."

Examine several offers, including those from existing accounts. As mentioned in the *WSJ* article, 0% balance transfer offers may vary significantly as to the length of the interest-free period, the rates for new purchases, and how unpaid balances are treated at the end of the period. Further, if you ask, your current card company may offer new, more favorable terms to keep the account in their portfolio.

Applying for an additional credit-card account may affect your credit report. Potential lenders are concerned not only about your current debt, but how much unsecured debt you have the authorization to accumulate. If you have one card with a \$30,000 limit, and another lender offers a card with a \$20,000 limit to transfer a \$10,000 balance (remember, they want you to spend more with the new card), your potential debt limit has risen by \$10,000, which may trigger an alert from the credit reporting agencies. Conversely, closing old accounts with strong payment histories as a way to lower total credit limits may also have a short-term negative impact on your credit score until the new accounts "age" well.

Make timely payments. Many 0%-interest offers are invalidated by late payments; if this happens, interest begins accruing at the card's regular rate on the next billing cycle – a rate which may be higher than the card from which you transferred the balance.

Do not use the new card. Treat the new account as an unsecured loan for a specific amount, and do not commingle the balance with any transactions that will incur interest charges. Commingling current transactions with old debt makes it hard to segregate payments. In addition, keeping the new account dormant is psychological reinforcement that the purpose of the transfer is debt reduction, not spending at a lower cost.

Establish a regular payment schedule. As the balance decreases, the monthly statement will reflect a lower minimum monthly payment. But the goal is not lowering monthly debt service payment, it is clearing old, unproductive debt in a cost-effective manner. Keep your payment fixed.

If you don't expect to pay the balance in full by the time the 0% - interest period expires, have a Plan B. As mentioned earlier, the standard interest rate after the teaser expires may be higher than what is currently being paid on existing accounts. Paying 20% interest in years 2 and 3 after 0% - interest in year 1 may be more costly than continuing to pay off a current account at 12%. Some consumers might anticipate making another 0% - interest balance transfer when the first expires, but future offers are not guaranteed.

The Key Ingredient

Beyond the financial considerations involved in deciding to accept a 0% balance transfer, there is a critical psychological component: **You must have the discipline to use the offer to your advantage in accelerating debt reduction.** It is easy for spendthrift consumers to see no interest charges and lower payments as a way to increase their spending (which is precisely what the credit card company intends). Instead of accelerating payoffs, they end up with even more debt – often at higher rates.

Credit card companies make 0% balance transfers an easy do-it-yourself project. But because of the details involved, many consumers would benefit from a second opinion from a financial professional familiar with their unique circumstances.

the death to the Social Security administration or preparing a final tax return. And besides these clean-up items, there is also the proper transfer of assets to beneficiaries.

Filing a beneficiary claim on a life insurance policy, annuity contract or retirement account is an important financial transaction that requires exact documentation. While it's not something most people want to handle in the days and weeks after a loved one passes away, the legal and tax implications require beneficiaries to take the time to properly execute these transactions. The specifics regarding a beneficiary claim may vary according to the type of asset, and the institution responsible for distributing benefits, but the following is a broad outline for beneficiaries to acquaint themselves with the process.

Step 1: Identify and communicate with the appropriate contacts. An insurance agent or broker listed on annual statements for life insurance or annuity contracts, and retirement accounts is typically a good resource for direction and assistance in completing the claim process. For benefits provided through an employer, the most likely starting point is contacting the company's Human Resources department.

In situations where there is not a specific contact, beneficiaries may have to communicate directly with the customer service departments of financial institutions. As soon as possible, even on the first call, beneficiaries will be well-served to secure direct contact with a specific individual – you should not have to navigate a voice-mail menu and speak to a different representative every time you contact the institution.

Step 2: Have essential documents and personal information in order and on hand. Before authorizing a distribution to beneficiaries, financial institutions want verification of the events and parties involved. Beneficiaries are expected to provide account or policy numbers, basic information about the decedent (such dates of birth and death, and usually his/her Social Security number). In addition, many institutions will require a certified death certificate (and usually will not accept copies). Additionally, some beneficiaries may have to produce additional documentation, such as a marriage certificate for a spouse inheriting a qualified retirement account. Executors and personal representatives for estates should provide documentation of their position and authority.

In the case of insurance contracts with multiple beneficiaries, each beneficiary has the right to select the manner in which they will receive funds. Thus, each listed beneficiary is required to file a separate claim, documenting their status as well as providing documentation of the passing of the insured. Because most institutions require a certified death certificate as part of the claim process, beneficiaries should expect to procure multiple certificates from the funeral home or local authority.

Step 3: Methodically process and resolve all details before submitting a beneficiary request. Depending on the asset involved, and the relationship of the beneficiary to the deceased, there may be several ways to receive benefits, such as a lump sum, periodic payments, or transfer without disbursement. Some assets when distributed incur no tax; others may be taxable to the recipients, with the amount varying depending on type of account and financial status of



Basics for Beneficiaries

One of the necessary tasks after the passing of a family member is settling the decedent's financial affairs. Some of these tasks are mundane, such as closing accounts, or stopping cable service. Some are mandatory, like reporting

the beneficiary. Because many claims decisions are irrevocable, beneficiaries should carefully weigh their options, and not rush to decisions. Consultation with financial professionals, especially regarding tax and legal consequences, is recommended.

Unknown benefits and privacy issues

The above action steps assume that beneficiaries are aware of their designation, and know the assets for which they are the intended recipients. But too often individuals leave assets that lack clear instructions as to their current status or beneficiary designation. Assets are forgotten (such as military or pension benefits), or neglected (paid-up life insurance policies). The death, divorce, or remarriage of a spouse changes family dynamics, children grow up and relocate, financial professionals change, time passes, and somewhere along the way the disposition of an insurance policy, savings account, or dormant 401(k) account becomes a mystery.

For example, survivors come across an old life insurance policy, and find the only beneficiary listed is a spouse who is also deceased. Is the policy still in force? Are there contingent beneficiaries? How does one find answers?

This can be a real challenge. Tighter privacy regulations make it difficult for potential beneficiaries to receive information from financial institutions without authorization from an agent or broker. But suppose the writing agent is unknown to survivors or has terminated his relationship with the insurance company. Obtaining any information about a policy, active or lapsed, will most likely require the following steps:

- Proof of death of the insured (another certified death certificate).
- Proof that the individual requesting information has authority to inquire on behalf of the insured's estate. This could be the deceased's surviving spouse, or the personal representative of the estate.

This is a lot of work just to determine the status of a policy, and it can be time-consuming, causing beneficiaries to either wait for benefits – or wait to discover the policy has lapsed, and no benefits are available.

If it is important that your loved ones and favored causes receive some of your accumulated wealth, take steps to keep the parties informed as to what they might expect at your passing. When the process of transferring assets to beneficiaries is convoluted and confusing, it takes a bit of the luster off what should be a positive legacy event.



- **ARE YOUR BENEFICIARY DESIGNATIONS IN ORDER?**
- **DO THESE PEOPLE (OR ORGANIZATIONS) KNOW THEY ARE BENEFICIARIES?**

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