RYAN POAGE & CO.
INVESTMENTS | WEALTH MANAGEMENT

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10 Steps To Take On The Path To Early Retirement

The new American dream is to retire early, perhaps in your 50s or even your 40s. But how do you make this dream a reality? These steps could help:

1. **Map out a plan.** Retiring early requires starting early with very deliberate planning. Design a road map of how you will get there, including an analysis of your investments and how much income you anticipate getting from other sources, such as Social Security, and spell out the details in writing. To accumulate enough to retire early, you'll likely need to take a fairly aggressive approach to investing while working full time. You'll also need continued growth during a phase-down period and a plan for how you'll manage assets when you're completely retired.

2. **Get going now.** Immediate action also is called for if you're going to meet this ambitious goal. Put your plan into motion today instead of waiting for a tomorrow that might never come.

3. **Control your debt.** One of the biggest impediments to early retirement is spending too much while you're working, especially if you build up substantial debt. The more you borrow, the harder it will be save enough to call it quits. Not only do debt payments siphon away money that you could use more productively, you're also paying extra in interest charges. You're bound to have a mortgage and perhaps a car payment, but if you eliminate luxury purchases now you'll be more likely to have the money later to support yourself without working.

4. **Educate yourself.** Knowledge is power, and learning about investing and other financial matters can help you make good choices on the way to early retirement. Understanding the more complex assets you may hold—bonds, exchange-traded funds, annuities, etc.—should enable you to avoid mistakes that could disrupt your progress. Take the time to learn everything you need to know.

5. **Make the process automatic.** Human nature being what it is, it may be difficult for you to remain diligent about saving more and spending less. But you could do yourself a favor by automating some things that can help steer you toward early retirement. Increasing your 401(k) plan contributions—perhaps by directing part of a salary increase into your account—can make a big difference. You also might take a systematic approach to prepaying mortgages or car loans.

6. **Don't ignore taxes.** It's not only how much you earn that makes a difference; it also matters how much

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Social Security Hype Will End After A Last-Minute Blitz

A year ago in this column I wrote about the increasing amount of hype being made about fancy claiming strategies for Social Security (SS) that could increase the amount of total income received over a lifetime. My message was that even though the strategies could increase lifetime benefits, in most real-world situations the claiming decisions were based on more simple criteria such as preferring a bird-in-the-hand.

With a recent bill passed by Congress, the decision of whether or not to implement a complex claiming strategy largely becomes a moot point, as the government is taking away the ability to execute most of the strategies. For individuals in a position to claim SS now, the opportunity still lasts for a few months, so it might be worth considering. Expect to see a last-minute marketing blitz from certain businesses creating a sense of urgency about not missing out on this. (FYI – this is frequently just a pitch to then try to sell something else.) If your personal SS timing might take place in the near future, let us look into it for you, but remember that a more common-sense timing choice might trump the soon-to-expire complex ones.

Ryan

Three Ways To Defuse Estate Rifts

It's impossible to know what will happen to your family after you're gone, but it's doubtful you're envisioning a bitter squabble over your possessions. Yet many a family is torn asunder when a patriarch or matriarch leaves this world.

Although there are no guarantees the claws won't come out, here are three documents that may reduce the potential for a serious rift:

1. A will. Virtually every adult with assets of any value needs a will. Typically, a will is the centerpiece of an estate plan and covers everything from appointing guardians for young children and addressing estate tax issues to determining who will receive your most valuable assets. A will gives you the opportunity to spell out who will inherit the beach house or expensive jewelry as well as other items of sentimental value.

A properly executed will is legally enforceable, so it's crucial that yours meets all of the technicalities of your jurisdiction. If you have significant assets you'll probably need to hire an attorney to draw up the document. It's likely that it will need to be updated in the future as your family circumstances change.

2. Personal property memorandum. Your will likely won't cover every last trinket you own, and it's a hassle to revise it all the time for minor changes. A personal property memorandum can supplement a will and may be referred to in the will itself. The memorandum can list all of your personal assets and your intended beneficiary for each item.

More than half of the nation's states have laws recognizing a personal property memorandum as legally binding. To avoid confusion, include a detailed description of your property. Make sure your executor has an official copy of both the will and the memorandum.

3. Letter of instruction. This is the last piece of the puzzle. Although a letter of instruction isn't legally binding, it can clarify certain issues and provide additional guidance to your heirs. The letter may include:

- The location of important documents, such as your will, insurance policies, titles, and deeds;
- Details of cemetery plots and funeral arrangements;
- Contacts for legal, tax, and financial information;
- A list and descriptions of all financial assets, including savings and checking accounts, stocks, bonds, and retirement accounts;
- The location of your tax returns for the past three years;
- The location of safe deposit boxes and keys; and
- Other special requests (for example, preferences for grandchildren attending college).

Last, but not least, your family members need to know about these three documents and where to find them. ●

Add To Your 401(k) With No Pain

We don't have to tell you how important it is to save as much as you can for retirement through a 401(k) or other plan offered by your company. But that's often easier said than done. When you're paying off a big mortgage on your home and putting your kids through college, you may be left without much you can direct into your retirement plan. But there may be a way to add to your 401(k) without feeling any pain.

It has to do with timing. If you earn more than the maximum Social Security wage base—$118,500 in 2015—you could allocate all or some of your year-end payroll tax savings to add to your 401(k) salary deferral. If you do that every year, you could boost your 401(k) account balance by tens of thousands of dollars or more. And you may not even notice those extra contributions.

With a 401(k) plan, you can defer part of your salary before taxes to an account established on your behalf, within generous limits adjusted for inflation. For 2015, the maximum you can put in is $18,000—or $24,000, if you're age 50 or older. Your company may sweeten the pot with matching contributions based on a stated percentage of your compensation.

Both employee and employer contributions to your account will grow and compound on a tax-deferred basis until you take money out, usually during retirement. If you start early enough and save diligently, you can accumulate a sizable nest egg during your working career.

Suppose that you contribute $12,000 a year and your employer contributes $3,000. If you are 20 years away from retirement and earn an 8% return annually, this will accumulate to $686,429. But adding to your contributions at the end of each year can help you do even better. Note: This example is hypothetical. Actual results

IRS Zeroes In On The Dirty Dozen Tax Scams

Each year, the IRS provides a list of what it calls a "dirty dozen" tax scams. But in 2015, instead of simply announcing the list, the tax agency issued press releases on each scam. Here's a rundown on this year's top offenders:

1. **Phone scams.** This is traditionally near the top of the list and often proliferates during tax-filing season. Typically, someone will alter a caller ID number in order to make it look like it's the IRS on the phone. Then the scammer is likely to threaten dire consequences if the victim doesn't immediately provide financial information and access to bank accounts.

2. **Phishing.** In a similar approach, criminals try to lure in victims through fake emails or websites and then gain access to personal information that's used to commit identity or financial theft. The IRS never initiates contact by phone or email, so don't be fooled into giving a caller your personal information.

3. **Identity theft.** Scammers may try to steal your Social Security number so they can file a fraudulent tax return claiming a tax refund. The IRS says it is continuing to step up its methods for identifying false returns and expanding partnerships with financial institutions to identify and stop bogus refunds.

4. **Tax return preparer fraud.** While the vast majority of tax return preparers are honest, there are still some people out there who may try to goad you into bad decisions to their benefit. To protect yourself from unscrupulous preparers, look for recommendations from friends or for advisors in your area who have a good reputation.

5. **Unreported offshore accounts.** A common tax dodge is to hide income via offshore bank or brokerage accounts or nominee entities and then use debit or credit cards or wire transfers to tap the funds. In a similar scam, taxpayers may use foreign trusts, employee-leasing schemes, private annuities, or insurance plans for the same purpose. The IRS is ramping up efforts to thwart these schemes.

6. **Inflated refund claims.** Some scam artists pose as tax preparers during tax return season. They lure in people by promising outlandish federal tax refunds, then collect big fees and disappear.

7. **False charities.** After major disasters, scammers may impersonate charities to pry money or private information from the concerned public. Sometimes these thieves will reach out by telephone or email to solicit money or financial information. Or they might contact disaster victims directly and claim to be working for the IRS.

8. **False 1099s and W-2s.** Filing a phony information return, such as a Form 1099 or W-2, may reduce your tax liability. Some criminals provide self-prepared, corrected, or fake forms that improperly report taxable income as zero. Another approach is to submit a statement rebutting wages and taxes reported by a third-party payer to the IRS.

9. **Abusive tax shelters.** These range from relatively simple structuring of abusive domestic and foreign trust arrangements to sophisticated strategies based on foreign financial secrecy laws. Although a trust may be used for legitimate estate- and tax-planning purposes, the IRS could challenge questionable transactions.

10. **False income.** Some people may falsify income reported on their tax returns to claim refundable credits, such as the earned income tax credit, and sometimes their tax preparers are in on the scam. Violators could be punished by having to pay restitution, interest, and penalties and might face criminal prosecution.

11. **Excessive claims for fuel credits.** The fuel tax credit generally is limited to off-highway business use or use in farming. Yet while it isn't available to most taxpayers, some fraudulently claim the credit to inflate their refunds.

12. **Frivolous tax arguments.** The IRS and the courts may dismiss certain claims as being frivolous and a waste of time and money. See the 2015 version of "The Truth about Frivolous Tax Arguments" provided to taxpayers. One illegitimate approach is to refuse to pay taxes on religious or moral grounds by invoking the First Amendment. ●

will vary and are not guaranteed.

During the year, Social Security tax is deducted from your paychecks. For 2015, you'll pay 6.2% on that first $118,500 of wages. Once you clear this Social Security wage base for the year, you can increase your 401(k) deferrals instead of pocketing the extra money. Because your take-home pay isn't reduced, you won't feel any pain.

How much will it help? Suppose, in the previous example, that you increase your annual deferrals by $3,000 a year. With the same 8% annual return over 20 years, this account grows to $823,715—or $137,286 more than if you had spent your year-end payroll tax savings!

Even if your wages don't exceed the Social Security wage base this year, you can look for ways to earmark more of your salary for retirement savings—a top priority no matter what your financial circumstances. ●

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The Path To Early Retirement

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you keep after taxes, and it's smart to make taxes a prime consideration in most of your investment and financial dealings. Tax-deferred growth inside a 401(k) and IRAs or investing in tax-free municipal bonds in taxable accounts could have a big impact, especially if you're in a high tax bracket. Savvy tax bracket management over time can save you tens or even hundreds of thousands of dollars.

7. **Go "all in."** Retiring early almost certainly will require an all-out effort over many years. It may help to work toward this goal as if you were running a business by keeping a steady eye on building toward the future. Try not to be unrealistic about the returns you expect to get from your investments and retirement plans, and follow through on the saving and spending objectives you've outlined in your early-retirement plan.

8. **Assume full responsibility.** Assuming you don't hit the jackpot in a lottery or receive a big, unexpected inheritance, you can succeed financially only if you take charge of all aspects of your life. That means correcting mistakes, making necessary adjustments, and striving for sound financial decisions. Part of taking responsibility can involve getting guidance from a knowledgeable professional advisor.

9. **Manage your risk.** Avoiding substantial investment losses can be just as important as generating big gains. That's why it makes sense to emphasize risk reduction as you formulate your investment strategy. Keep in mind that financial markets go up and down. And while that doesn't mean you should sink all of your money into U.S. Treasury bills and other traditionally safe investments, you probably will need to include such holdings in your overall portfolio mix to minimize the inherent volatility that can work against your goal of retiring early.

10. **Use common sense.** Finally, be as logical and rational as you can be in pursuing your goal. In particular, try to avoid panicking during inevitable market downturns. If you save diligently and stay the course with a well-diversified portfolio, early retirement might not be a pipe dream. It could happen to you! ●