TAX ADVANTAGED PLANNING

A proactive approach to creating a forward looking, tax efficent plan

First Edition

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The World is Changing. Are you?

I'm going to say something that I bet will come as no shock to you, but which still needs to be said: the world is changing. Look at our debt, our national and international politics, and the economies of all the great nations around the world. It's a crazy time filled with unprecedented problems, innovative but largely untested solutions, and general insecurity about what the future brings.

There's one thing we know, it's that we can't fix New World problems with Old World solutions. That would be like physicians trying to treat cancer today with a combination of leeches and snake oil. We have to adapt and find alternative, progressive solutions that factor in all of the changes surrounding us and that help to insulate our money and our future from what may come.

Before we get too far ahead of ourselves I would like to have us agree on two terms.

Critical:

- Can we all agree that if something is critical, that it is something that we need to be aware of before we ever make a decision? Especially a significant decision?

Sound: There are 2 parts to making a sound financial decision…

- First, you must understand the critical components associated with the needs and goals you are looking to accomplish.
- Second, you need a clear understanding of how each decision you make will affect all of the other choices in your planning process.

In other words, if there were a missing fact or piece of information that was costing you a significant amount of money now or would cause a significant problem or cost in your future, when would you want to find out about it? Today? 5 or 10 years from now? Never? If that fact or piece of information was a must know fact, would you agree you would want to know about it prior to making any type of financial decision, especially one that put your money at risk? That's what makes our firm different and the content that you are going to learn about today! We believe in identifying all the facts necessary to make a sound financial decision that is in your best interest before making that decision.

Said another way, I would like to propose that you adopt the motto that **"you will not make any major planning decisions unless *math and science* can back up the validity of those decisions."** If you can say yes to that then I'm excited to be able to share with you how to evaluate and better understand what a tax advantage planning process can look like and do for you.

Three Dates in the Past That Have Changed Our Future

There are three dates that change the face of the future of the American retirement system. Because of these dates it doesn't matter which candidate you vote for or which political party controls what branch of government. Although all the politicians today want to make it about the vote- telling you that if you vote for their candidate it's a;; going to get better, because it's Obama's fault for absolutely everything that's wrong, or maybe now it's all Trump's fault. The reality is that these three dates that I'm about to mention are really what will change the face of the future of the American retirement system forever. It doesn't matter what person holds which office, these dates, and their impact on the future, cannot be changed by any politician. They're just facts. Let's walk through what they are.

The first retirement system changing date was on **January 1, 2008**. It was on this day that the first baby boomer turns 62 years old and qualified to take early social security distributions. Now, if it was just one baby boomer, that would be fine, but it's not. In fact, every day after that date, an average of 10,000 baby boomers are turning 62 and as such, qualify for early social security distributions.

> Question: Doesn't it make more sense to take an earlier benefit (at 62) and get paid for a longer amount of time than waiting until age 70?

The second day that changed America's retirement system was **January 1, 2011**. If you're quick at math, then you figured out why this date matters- it's because that's the date that the first baby boomers turned 65 and gained a new primary care healthcare provider through Medicare. And guess what? Every day after that date we've had an average of 10,000 baby boomers turning 65 and qualifying for the same benefits. Imagine that; 10,000 new potential Social Security and Medicare recipients every single day. Never before have we had such a large, seemingly unending stream of people ready to tap into retirement and health care programs all at the same time.

So, what does this do to our country? It puts us in a very difficult position. But before I get into that, let me start by saying that I believe taxes are going up, way up in fact, over the long term. It's important for you to know that. We may see lower rates for a while (specifically through the year 2025 based on the recent legislation established by the Tax Cuts and Jobs Act), but ultimately the debts must be paid and that means that taxes are going to rise. I have a belief, and it's a planning bias, that traditional planning is failing because it is not willing to acknowledge and accept this fact. That's right… this is a belief, but it's supported by facts.

A few facts to consider: According to the Old Age Survivors and Disability Insurance Trustees Report in 2017, Medicare and Social Security payments totaled 42% of the federal budget. The current ratio of workers to recipients of Social Security is 2.9 to 1, and if there are no changes to the program by the year 2030 the system will be bankrupt and only have $.79 on the dollar to pay recipients. Multiply that by the fact that we have over $21 trillion of federal debt (as I write this in October 2018). I believe it becomes very clear for anyone to recognize that Uncle Sam only has one way of paying his bills, and that's through taxation. **The big question is whether you know that you are in business with him and how that will affect you both today and in the future?**

How Taxes Adjust

Taxes are adjusted in one of two ways, if not both. **The first is to raise the taxes**. This is literally where government tax authority just says, “Hey, the rate was 15%, now it’s 23%.” So, rate increases are something that I’m anticipating will eventually occur.

The second way taxes are raised his through what I call **rollbacks**. Let’s just imagine a service right now that’s paid for by Medicare. Next year, Medicare says, “instead of paying for you benefits at an 80% ratio, we’re now only going to pay at 70%, therefore paying less for that service.” When Medicare pays less, retirees supplemental insurance plans will have to pick up the difference. I can with certainty share with you another fact, these insurance companies aren’t just going to pay more out for your care out of the kindness of their hearts. During the next year, when those higher expenses occur the insurance companies are going to pass the difference along to you’re the consumer in the form of higher premiums. The challenge is that your expectation of the expenses you were going to be paying for in retirement are going to increase in a very meaningful way because of unexpected rollbacks like these.

So, when I say taxes are going up, and they have the potential to go way up, it’s because I believe that the percentage rate of taxation will increase, and I also believe that there may be some promises that were made to you that will be rolled back. The point is that we have a major generation aging into their eligibility to receive benefits from the Medicare and Social Security system while at the same time we’re seeing a declining work force contributing. The challenge is that the US has never experienced a major demographic shift in these systems, coupled with the fact that we are living so much longer than previous generations so we’ll be dependent on them for a longer amount of time. Where does that leave us? Ultimately Uncle Sam with either figure out how to raise more taxes, rollback benefits or print more money, either way I believe that this will result in our assumed expenses changing in a major way in some form or another.

Now let’s talk about the third date, **June 15, 2016**. What happened on that date? The very first baby boomers hit age 70.5 and was required to begin taking minimum distributions (aka: RMDs) from their retirement plans, including the traditional IRA and 401(k) plans. Now, let’s talk about what that means and why that matters.

Table III (Uniform Lifetime)

Age	Distribution Period	Age	Distribution Period	Age	Distribution Period	Age	Distribution Period
70	27.4	**82**	17.1	**94**	9.1	**106**	4.2
71	26.5	**83**	16.3	**95**	8.6	**107**	3.9
72	25.6	**84**	15.5	**96**	8.1	**108**	3.7
73	24.7	**85**	14.8	**97**	7.6	**109**	3.4
74	23.8	**86**	14.1	**98**	7.1	**110**	3.1
75	22.9	**87**	13.4	**99**	6.7	**111**	2.9
76	22.0	**88**	12.7	**100**	6.3	**112**	2.6
77	21.2	**89**	12.0	**101**	5.9	**113**	2.4
78	20.3	**90**	11.4	**102**	5.5	**114**	2.1
79	19.5	**91**	10.8	**103**	5.2	**115 and over**	1.9
80	18.7	**92**	10.2	**104**	4.9		
81	17.9	**93**	9.6	**105**	4.5		

Most of the retirees that we meet with have saved pretty significantly in their 401k and IRA plans over the years. Generally, these contributions were pre-tax on the front end, so all withdrawals come out as ordinary income. Once you reach 70 ½, you are forced to begin taking withdrawals. The process for calculating these withdrawals is relatively straightforward. Each year, you take the ending balance for the prior year and divide it by a factor representing your remaining life expectancy.

Notice that each year you age, your life expectancy goes down by less than one year, such that the table runs all the way out to 115, and even at 115, you only have to take out a little more than half the prior year's ending balance.

No big deal, right? The key here is that if you've done a good job of saving into your IRA or 401k, your minimum distributions plus your Social Security may be more than you actually need to sustain the lifestyle you want to live. If that's the case, it's likely you will be paying more taxes on the back end than you could be, as we'll show you a little later in the course.

Tax Cuts & Jobs Act: 7 Tax Advantaged Strategies for Retirees

The federal tax code is undergoing its first significant makeover in 30 years. The new tax law, most of it effective just days after President Trump signed it right before Christmas, installs a bevy of changes, some sweeping, some tweaking.

Although every group of taxpayers will be affected, some may save a bundle, while others might find their tax cut a little thin -- some will even pay more.

Here, we outline changes in key areas that preretirees and retirees should pay particular attention to. Some provisions have been highlighted in news headlines, but some have flown under the radar. Most are scheduled to sunset by 2026, but whether that will happen is up to future Congresses.

A new tax law brings opportunities to implement tax-planning strategies to trim future tax bills. We'll highlight seven big tax changes along with the related tax advantaged strategy for each. We encourage you to add them to your tax-trimming to-do list.

1) The Big Change: Lower Tax Rates

A change that all taxpayers will feel: Federal tax rates and the income thresholds for each bracket have dropped. Lower tax rates are across the board and will be experienced at nearly all levels of income. A single filer with $70,000 of taxable income in 2017 is in the 25% tax bracket, while in 2018 that same income falls in the 22% tax bracket, saving the taxpayer roughly $2,100. The seven tax brackets in 2018 will be 10%, 12%, 22%, 24%, 32%, 35% and 37%.

The alternative minimum tax still exists, but the exemption has been raised. For single filers, the exemption climbs from $54,300 to $70,300, and for joint filers, it rises from $84,500 to $109,400. How the exemption amount phases out has also been changed. The result: Fewer people should be hit by AMT.

The new law keeps the tax rates for long-term capital gains and qualified dividends of 0%, 15%, 20%. Previously, the tax bracket you fell into determined which rate you would pay on profits from assets you've owned for more than a year. Going forward, Congress wrote income thresholds into the law. For 2018, for instance, the 0% rate applies for individual taxpayers with taxable income up to $38,600 and for joint filers about $77,200. Short-term gains from assets held for a year or less are still taxed at ordinary income tax rates.

Those who are self-employed may qualify for a sweet tax break under the new law. If your business qualifies as a pass-through entity, such as a sole proprietorship or LLC, you may be able to shield 20% of that income from taxes. (Please consult your tax accountant for thresholds and additional information.)

1) The Tax Advantaged Strategy: Convert to a Better IRA

Converting money from a traditional IRA to a Roth IRA. Assuming your tax rate has dropped, you will pay less for a Roth conversion this year than you would have last year. If the tax changes expire as scheduled and tax rates rise, you could find yourself in a higher bracket down the road. You will pat yourself on the back for paying tax on the conversion at lower rates than future withdrawals from a traditional IRA would have faced. The sooner the money is in the Roth IRA, the sooner earnings will be tax-free rather than simply tax-deferred.

2) The Big Change: Larger Standard Deduction

Another big change is the doubling of the standard deduction. About 70% of all taxpayers have taken the standard deduction in the past, but this change is likely to tip the scale for millions of longtime itemizers. Some 30 million who itemize on their 2017 returns will likely be better off taking the standard deduction going forward.

For individuals, the standard deduction climbs to $12,000, from $6,500, for 2018. For married taxpayers filing jointly, the standard deduction rises to $24,000, from $13,000.

Seniors age 65 or older retain the extra standard deduction of $1,300 if married or $1,600 if single. For a married couple both 65 or older, their standard deduction climbs to $26,600. "That's a big number," says Steffen.

One trade-off for the increased standard deduction: the loss of the personal exemption, which was expected to be $4,150 for 2018. That loss trims the actual increase in tax savings from the boosted standard deduction, but many will still come out ahead with the standard deduction.

Those who still itemize face a mountain of changes in what's deductible and what's not. **You can no longer deduct miscellaneous expenses, such as investment-management and tax-preparation fees**. But you can still deduct some state and local taxes, mortgage and investment interest, and charitable contributions.

The medical deduction remains and, in fact, is temporarily sweeter. For 2017 and 2018, you can deduct unreimbursed medical expenses that exceed 7.5% of your adjusted gross income. The 10% threshold returns in 2019.

2) The Tax Advantaged Strategy: Bunch Deductions

Bunch deductions to take advantage of itemizing in one year and use the standard deduction the next. This is an old strategy that has become a lot more applicable now. If you give $15,000 a year to charity, for instance, donate $30,000 in one year and itemize, and skip donations and take the standard deduction the next year.

Bunching deductions could offer an extra advantage if it pulls your taxable income to a level that reduces the tax rate on capital gains. If so, consider harvesting gains to take advantage of the lower rate, and tax loss harvesting for better diversification.

3) The Big Change: Deducting Mortgage Interest

The mortgage interest deduction gets squeezed under the new law. Previously, you could deduct interest on up to $1 million in mortgage debt incurred to buy or build a principal residence and second home, plus the interest on up to $100,000 of home equity debt used for almost any purpose.

The new law grandfathers in existing mortgages, but for debt incurred after December 14, 2017, the $1 million cap drops to $750,000. You can still deduct mortgage interest on a second home, but the lower limit applies to total debt used to buy, build or improve both homes. If you have an existing mortgage of $500,000, but buy a new second home this year, you'll be limited to deducting interest on $250,000 of the new mortgage.

The new law also abolishes the write-off for interest on home equity debt. And this crackdown applies to both old and new loans. But if you use a home equity line of credit to pay for "substantially improving" a home, you could still deduct interest related to the loan proceeds you used to cover those costs. If you use the money to buy a new car or take a big trip, though, you're out of luck on deducting the interest.

3) The Tax Advantaged Strategy: Renovating? Save the Paperwork

If you plan to renovate your home to age in place, keep all your receipts and documentation of expenses. Besides being able to use those to potentially deduct home equity loan interest, you'll also need them to prove that you increased the basis in your home. If you earn a substantial profit when you sell your home, that higher basis helps reduce any profit subject to tax.

4) The Big Change: SALT (State And Local Tax)

Many taxpayers in high-tax states scrambled at year-end 2017 to try to make use of the unlimited deduction for state and local income or sales taxes and property taxes. Starting in 2018, taxpayers are limited to an annual federal deduction of $10,000 for all state and local taxes. One thing to know is that there is a marriage penalty built in, as the MFJ filing status doesn't change the amount. Two singles living together can deduct $10,000 each in state and local taxes; a married couple is capped at $10,000 annually. And there is no inflation adjustment, so the limited SALT deduction will likely become even more painful over time.

In low-tax states and localities, this limit may not be a big deal. But property owners in high-tax states, such as New York and California, and those with second homes are likely to suffer from the loss of the unlimited deduction. While many states and localities are trying to come up with ways to offset the loss, as of now, there isn't much taxpayers can do to ease the pain if they want to continue to own the property.

4) The Tax Advantaged Strategy: Know State Tax Rates Before You Move

Those who split time between states, might have a tax-saving opportunity if they consider making a more tax-friendly-state their primary place of residence. Be sure to strictly follow state rules for full-time residency, though; high-tax states have become increasingly aggressive in preventing taxpayers from improperly claiming residency in a low-tax state.

If you've been thinking of moving in retirement, take a good look at the state and local tax burden of the destinations you're considering. You can delve into the tax-friendliness of states by using the following map. There's a good chance this change in federal tax law could prompt more retirees to consider relocating.

5) The Big Change: Charitable Giving

Even though more taxpayers will take the standard deduction, there are still a couple of ways under the new law to maximize tax savings while doing good. And taxpayers who still itemize could actually benefit from a new, more generous limit on how much you can deduct. In the past, the deduction for cash gifts was capped at 50% of your adjusted gross income. **The new law raises that to 60%.**

If you regularly give to charity, consider bunching donations in one year to surpass the standard deduction amount so you can itemize for that year, while taking the standard deduction in other years. An easy way to do this is to set up a donor-advised fund, which lets you contribute a chunk of money in one tax year but gift the money out whenever you like.

5) The Tax Advantaged Strategy: Qualified Charitable Distributions (QCD's)

Generous seniors have another tax-advantaged route called the qualified charitable distribution. The law allows traditional IRA owners age 70-1/2 or older to directly transfer up to $100,000 from a traditional IRA to a qualified charity. The distribution can satisfy your required minimum distribution, killing two birds with one stone. Better yet, the income doesn't show up in AGI, which could help rein in taxes on Social Security benefits or avoid Medicare premium surcharges. For most seniors, the QCD move will be the only way to get tax savings from charitable contributions.

6) The Big Change: Gifting to the Grandkids

The new law makes several changes that could affect how you give money to the grandchildren. First off, the law expands the use of 529 education savings plans. Besides college costs, you can now use up to $10,000 per year per child tax-free for private or parochial elementary and high school costs. Although there is no federal tax deduction for 529 contributions, many states offer a state tax break.

Taxpayers can now also roll 529 money into an ABLE account to help provide a financial cushion for people with special needs, while still maintaining their eligibility for government benefits.

For those who plan to gift grandkids assets that will throw off investment income, be aware that the new law changes the “kiddie tax” rules. Previously, unearned income above $2,100 received by a dependent child under age 19 (or age 24 if a full-time student) was taxed at the parents’ tax rate. Unearned income includes dividends, interest, capital gains and inherited IRA distributions.

Now, the parents’ tax rate doesn’t matter; the kiddie tax applies the trust tax rates, instead, and they rise much faster than individual rates. The top tax rate of 37% kicks in at $12,500 for trusts in 2018, for instance, but not until $600,000 for married couples filing jointly.

6) The Tax Advantaged Strategy: Frontload a 529 Plan

The opportunity is that you can frontload a 529 account with five years’ worth of gifts protected by the annual $15,000 gift tax exclusion. So, a grandparent could gift $75,000 to a grandchild’s 529 account in one fell swoop.

7) The Big Change: Estate Planning

While the estate tax wasn’t repealed, the federal estate-tax exemption doubled for 2018, the estate tax won’t apply until an estate exceeds $11.2 million. For couples, that means $22.4 million can pass tax-free to heirs. (Like most of the individual provisions in the new law, the higher exemption, which is inflation adjusted, is scheduled to sunset by 2026; if a future Congress doesn’t change the rules again, the tax-free amounts will be cut in half at that point and revert back to previous amounts.)

Unfortunately, the need for a Will or Trust doesn’t look us in the face every day, therefore many may see these new numbers as way beyond what they believe their estate will ultimately look like, so they procrastinate on setting up these legal documents which is a major oversight. There are dozens of reasons why we need to have our estate documents in order, taxation just happens to be one. It is our belief that the future need of Uncle Sam for tax revenue will put a lot of pressure on the estate tax exemptions level, and a much higher percentage of Americans will find themselves seeking more efficient ways to transition dollars to the next generation.

7) The Tax Advantaged Strategy: Leave Capital Assets to Heirs

The rule that steps up the tax basis of inherited assets remains under the new law. As in the past, consider passing capital assets such as appreciated stock, mutual fund shares and real estate to heirs. The heirs’ basis will be the value of the assets on the date you die, making all prior appreciation tax-free. In the state of Washington, we are able to step up $2 million at each spouses passing, giving us a double step up in basis. Estates beyond $4 million could be subject to Washington state taxation. (Reminder: Consult an attorney to review your estate, planning strategies and laws that pertain to you.)

The Tax Advantaged Conclusion: Create a Tax Forward Income Plan

There are many parts and there are many moving pieces, it is your opinion that you take the steps necessary to organize your affairs in such a way as to reduce your overall in the future. Creating a tax forward income plan begins with understanding your expenses and accounting for the inflation adjustments appropriate in the future. From there you begin to understand time frames like when you’re retiring, what your opptions are for Social Security, then identify what accounts and what amounts that you will withdraw from each year in order to create a tax optimal income plan.

Stealth Taxes

1) Medicare and SS are Means Tested

a) Medicare B & D Surcharges

Your Medicare Costs 2019

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2019 PREMIUMS, DEDUCTIBLES & COINSURANCE	
Part B Premium	$135.50 Standard
Part B Deductible (Annual)	$185
Part A Deductible (Per Causal Benefit Period)	$1,364
Part B Coinsurance	20%

MONTHLY PART B PREMIUM BASED ON MODIFIED ADJUSTED GROSS INCOME 2 YEARS AGO (2017)		
Individual Joint	≤ $85,000 ≤ $170,000	$135.50 Standard
Individual Joint	> $85k ≤ $107,000 >$170k ≤ $214,000	$189.60
Individual Joint	>$107k ≤ $133,500 >$214k ≤ $267,000	$270.90
Individual Joint	>$133,5k ≤ $160,000 >$267k ≤ $320,000	$352.20
Individual Joint	> $160k ≤$500,000 > $320k ≤$750,000	$433.40
Individual Joint	≥$500,000 ≥$750,000	$460.50

Medicare Part D – 2019 Income Based Premium Surcharge

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Beginning in 2011 there was a Part D premium surcharge added to Medicare.

Surcharges are based upon your MAGI from completed filings 2 years prior.

BASED ON MODIFIED GROSS ADJUSTED GROSS INCOME 2017		
Individual Joint	≤ $85,000 ≤ $170,000	Only Plan Premium
Individual Joint	> $85k ≤ $107,000 >$170k ≤ $214,000	$12.40 + Plan Prem.
Individual Joint	>$107k ≤ $133,500 >$214k ≤ $267,000	$31.90 + Plan Prem.
Individual Joint	>$133,5k ≤ $160,000 >$267k ≤ $320,000	$51.40 + Plan Prem.
Individual Joint	> $160k ≤$500,000 > $320k ≤$750,000	$70.90 + Plan Prem.
Individual Joint	≥$500,000 ≥$750,000	$77.40 + Plan Prem.

b) Taxation of Social Security Benefits

Social Security is taxed based on your other income sources. Your "provisional income" includes 1/2 of your Social Security benefits, plus all other taxable income, including dividends and realized capital gains, interest, plus non-taxable interest earnings, such as from municipal bonds.

Provisional Income			
50% of Social Security Benefit	Ordinary Income	Dividends and Capital Gains	Non-Taxable Interest

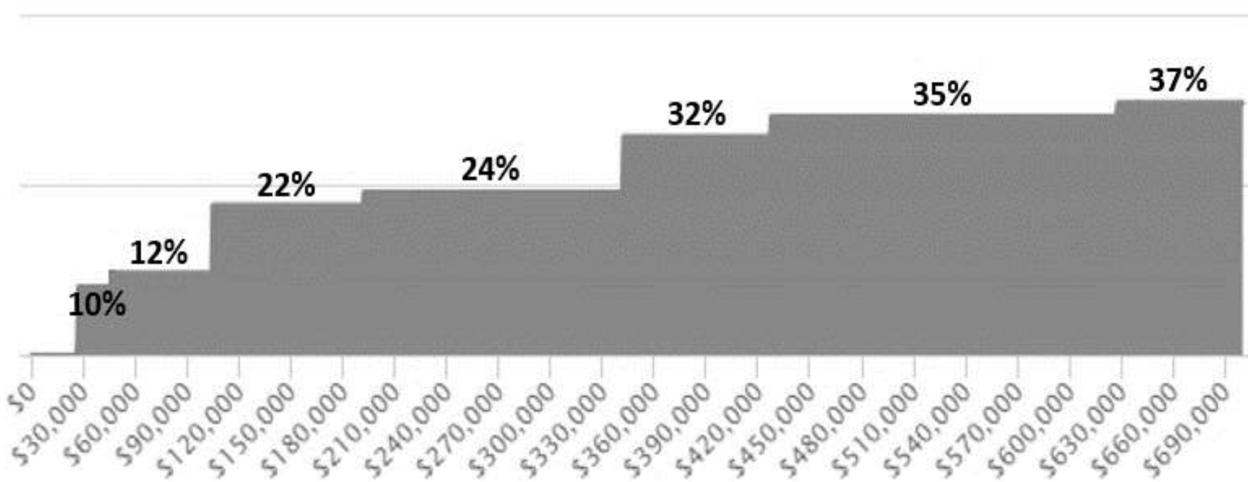
Once we have calculated Provisional Income, it's time to apply the thresholds. The key here is that only the Provisional income that falls over the threshold creates taxable Social Security.

Filing Status	Provisional Income	Amount of Social Security benefits subject to tax
Married filing jointly	Under $32,000 $32,000 to $44,000 Over $44,000	0% 50% 85%
Single, head of household, widow, widower, married filing separately and living apart from spouse	Under $25,000 $25,000 to $34,000 Over $34,000	0% 50% 85%
Married filing separately and living with spouse	Over $0	85%

2) Effective Marginal Tax Rates

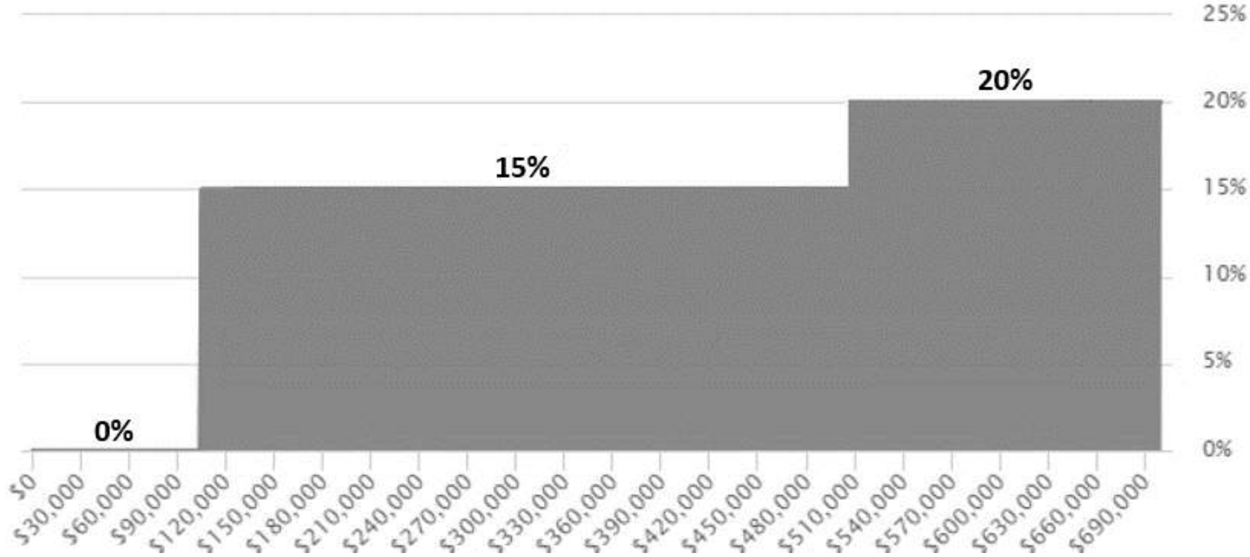
Over time, when the government has needed new tax revenues, the method has not been to change rates or brackets evenly across all taxpayers. Instead, it has been to introduce phase-outs of deductions or exemptions or begin to include income that was previously not taxable, like Social Security Benefits. The result is a tax system in which the most important number isn't necessarily the tax bracket you land in, but instead is the Effective Marginal Rate. **In other words – How much of your last dollar did you actually lose to Federal Income Tax?**

Married Filing Jointly- "Ordinary Income"



Taxable Income	Ordinary Income Brackets
0 - $19,050	10%
$19,051 - $77,400	12% (was 15%)
$77,401 - $165,000	22% (was 25%)
$165,001 - $315,000	24% (was 28%)
$315,001 - $400,000	32% (was 33%)
$400,001 - $600,000	35% (Same)
$600,001 +	37% (was 39.6%)

Married Filing Jointly- "Long Term Capital Gains and Dividends"



One of the best examples of the counterintuitive nature of how Minimum Distributions interact with capital gains to create ordinary income is through the taxation of Social Security. **If all you had on your tax return was Social Security, you would pay no Federal Income tax at all, but when you have other types of income, it can cause your Social Security to become taxable.**

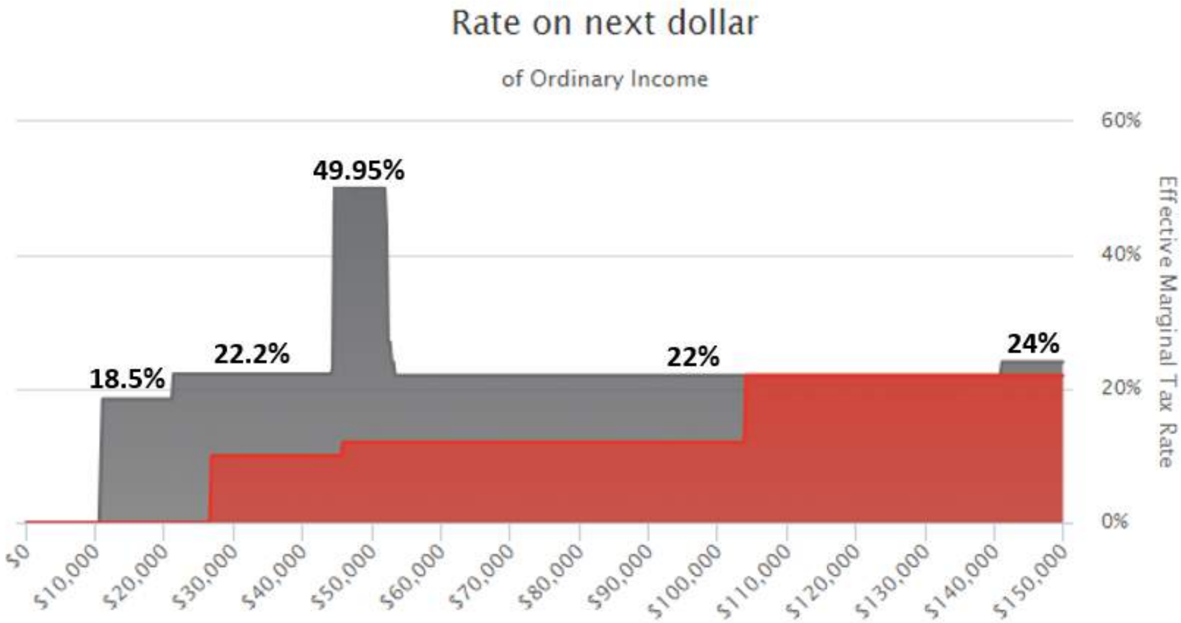
It's common among advisors to say 85 percent of benefits are going to be taxable. For high income people, 85 percent is often taxable, and 15 percent is tax free. **For middle and upper middle-income folks, that is often not true, because it is based on a formula called the provisional income formula, which can have some strange impacts.** Let's walk through how that happens.

Your "provisional income" includes 1/2 of your Social Security benefits, plus all other taxable income, including dividends and realized capital gains, interest, plus non-taxable interest earnings, such as from municipal bonds.

The next image reveals "The Real Tax System" using Ordinary Income putting all of this together.

You can see that once they harvest a little over $10k in ordinary income, they begin to experience an 18.5% Effective Marginal tax rate. That is the point that their ordinary income plus capital gain drags enough Social Security into the calculation to begin making every additional dollar withdrawn from the IRA taxable at 10% and each additional dollar over that drags another 85 cents of Social Security into the mix, creating an Effective Marginal Rate of 18.5%.

You can see this couple never really experiences the 10% or 12% brackets. They go from 18.5% to 22.2% to almost 50% before dropping down into the regular brackets.



If you are saying "whoa – wait a minute that spike occurred at the 12% bracket – how did that happen?" you are not alone.

What Intuitively Should Happen:

$1,000 additional IRA Withdrawal		$120

What Actually Happens:

$1,000 additional IRA Withdrawal	12% Bracket	$120
Causes $850 Taxable SS	12% Bracket	$102
Causes $1,850 Capital Gains to be taxable	15% Bracket	$277.50
Total Additional Tax Burden on $1,000 withdrawal:		**$499.50**

Intuitively, this is a couple in the 12% bracket for ordinary income. You would expect a $1,000 additional withdrawal to create 12% of tax - $120.

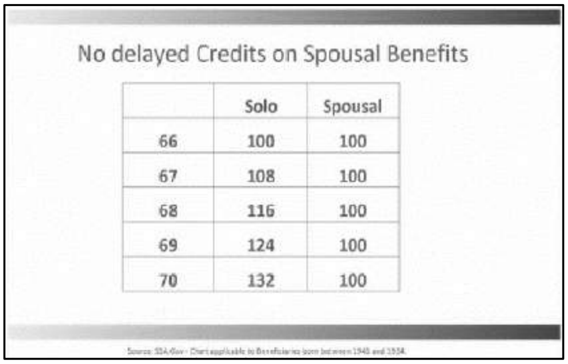
But here's what actually happened. The $1000 withdrawal did get taxed at 12%, - $120. But then it caused $850 of Social Security Benefits to become taxable, adding $102 to the tax bill, which then together caused $1,850 of Capital Gains that would have come through at 0% to become taxable, resulting in another $277.50 in Federal Income Tax. In short, on that $1,000, the couple lost 49.95% to Federal income tax.

3) **Not Maximizing SS is a Stealth Tax**

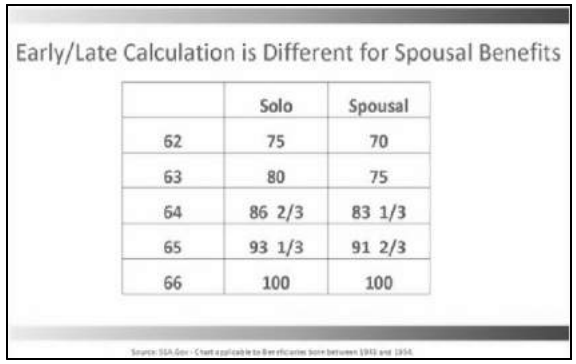
A male born 6/15/1955, who earned $84,000 in the current year (2018), using inflated dollars at the Social Security Trust Fund estimate of 2.7%. Benefit amounts are estimates based on information from the Social Security Quick Calculator:

AGE	EARLY MONTHLY	EARLY ANNUAL	EARLY CUMULATIVE	FRA MONTHLY	FRA ANNUAL	FRA CUMULATIVE	LATE MONTHLY	LATE ANNUAL	LATE CUMULATIVE
62	$1,539	$18,468	$18,468						
63	$1,581	$18,967	$37,435						
64	$1,623	$19,479	$56,913						
65	$1,667	$20,005	$76,918						
66	$1,712	$20,545	$97,463	$2,467	$9,868	$9,868			
67	$1,758	$21,099	$118,562	$2,534	$30,403	$40,271			
68	$1,806	$21,669	$140,231	$2,602	$31,224	$71,496			
69	$1,855	$22,254	$162,486	$2,672	$32,067	$103,563			
70	$1,905	$22,855	$185,341	$2,744	$32,933	$136,496	$3,724	$44,688	$44,688
71	$1,956	$23,472	$208,813	$2,819	$33,822	$170,318	$3,825	$45,895	$90,583
72	$2,009	$24,106	$232,919	$2,895	$34,735	$205,054	$3,928	$47,134	$137,716
73	$2,063	$24,757	$257,676	$2,973	$35,673	$240,727	$4,034	$48,406	$186,123
74	$2,119	$25,425	$283,101	$3,053	$36,636	$277,363	$4,143	$49,713	$235,836
75	$2,176	$26,112	**$309,213**	$3,135	$37,626	**$314,989**	$4,255	$51,056	$286,892
76	$2,235	$26,817	**$336,030**	$3,220	$38,642	$353,631	$4,370	$52,434	**$339,326**
77	$2,295	$27,541	$363,570	$3,307	$39,685	$393,316	$4,487	$53,850	$393,175
78	$2,357	$28,284	$391,855	$3,396	$40,756	**$434,072**	$4,609	$55,304	**$448,479**
79	$2,421	$29,048	$420,903	$3,488	$41,857	$475,929	$4,733	$56,797	$505,276
80	$2,486	$29,832	$450,735	$3,582	$42,987	$518,916	$4,861	$58,330	$563,607
81	$2,553	$30,638	$481,373	$3,679	$44,148	$563,063	$4,992	$59,905	$623,512
82	$2,622	$31,465	$512,838	$3,778	$45,340	$608,403	$5,127	$61,523	$685,035
83	$2,693	$32,315	$545,153	$3,880	$46,564	$654,967	$5,265	$63,184	$748,219
84	**$2,766**	**$33,187**	**$578,340**	**$3,985**	**$47,821**	**$702,788**	**$5,407**	**$64,890**	**$813,109**
85	$2,840	$34,083	$612,423	$4,093	$49,112	$751,900	$5,553	$66,642	$879,750
86	$2,917	$35,003	$647,426	$4,203	$50,438	$802,338	$5,703	$68,441	$948,192
87	$2,996	$35,949	$683,375	$4,317	$51,800	$854,138	$5,857	$70,289	$1,018,481

This person “breaks even” at age 75 if they claimed benefits at FRA rather than age 62. They break even at age 76, rather than age 62, and 78 compared to FRA. In other words, if they take benefits at FRA, the cumulative total of benefits at age 75 is greater than the cumulative total if taken at age 62. The cumulative benefits claimed at age 70 are greater starting at age 76 than they are for the cumulative benefits if taken at age 62, and at age 78 versus taking benefits taken at FRA.


No delayed Credits on Spousal Benefits

	Solo	Spousal
66	100	100
67	108	100
68	116	100
69	124	100
70	132	100


Early/Late Calculation is Different for Spousal Benefits

	Solo	Spousal
62	75	70
63	80	75
64	86 2/3	83 1/3
65	93 1/3	91 2/3
66	100	100

Spousal Considerations

Another consideration for the analysis of breakeven points is survivor income. When the highest earning spouse dies, what will the surviving spouse receive in benefits? Using the same example, if the high earner was the husband, using the life expectancy if benefits were taken at age 62, which according to the Social Security Life Expectancy Calculator is age 84. [17]

Life expectancy age 84

Benefits claimed at age 62:

$2,766 / month **$33,187 / year**

Benefits claimed at age 66 & 2 months:

$3,985/month **$47,821 / year** **44 % more benefits than filling at 62**

Benefits claimed at age 70:

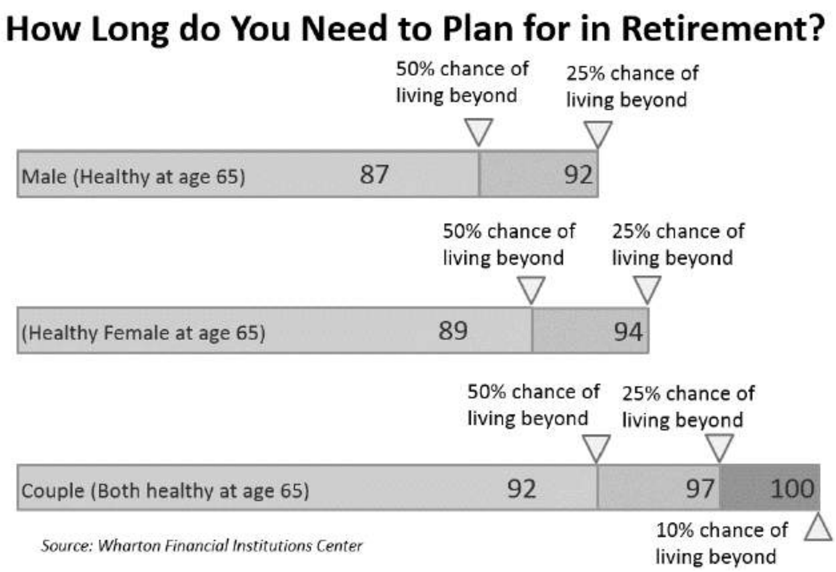
$5,407/month **$64,890 / year** **96% more benefits than filling at 62**

It is important, when considering the breakeven and survivor benefit calculations that you take into consideration all factors such as family health history, life expectancy, standard of living, current health conditions, etc.

4) Inflation

There is no question that we are now living longer than we have in the past. Which is why it has become more important that we consider our lifestyle needs both now and in the future. The number one risk that we have in life actually is longevity, because it is the multiplier of all the other risks associated with our retirement plan. See if we only live five years in retirement it doesn't really matter if we accounted for how to reduce taxes, navigate a market cycle, maximized Social Security benefits etc. Why? Because we never live long enough, but if we live a long time how we make every one of these decisions becomes incredibly important.

Where we find retirement plans going off the rails is that they are not properly accounting for the specific inflation involved with each expense that a lifestyle will incur. An example of this is that health care and real estate tax inflation is likely much higher than the cost of goods and services or your fixed mortgage as an example. What will happen if you don't properly quantify these needs as actual expenses in the future, is that your estimates will be far from where they should be in the modeling of your retirement plan.



5) Phantom Income

Ex: You bought a Balanced Mutual Fund last year with $500,000 in your brokerage account...

The fund had purchased Apple in Jan. 2007 and decides to sell it…

Because you own the MF today, you will receive a 1099 from the mutual fund company, with all dividends and capital gains earned. By law, you now owe income taxes on all of the gain since 2007 on this year's tax return (even if the fund lost money that year). $50,000 of income from your shares creates somewhere around $7,500 in taxes this year.

It has been our experience that very few advisory firms recognize the tax advantaged ways of investing depending on the type of account. An example of an efficient way to invest in an after-tax account would be to utilize individual stocks while seeking the more attractive long-term capital gains bracket. If things go well here in a favorable tax position, if things don't go well and you have a loss you're able to exercise something called the carryforward loss that you would not otherwise have if investing inside of a retirement account like an IRA or 401k.

For those that have highly appreciated real estate, it will be very important for you to understand the laws surrounding a 1031 exchange. Some understand this concept but very few understand the advanced strategies that can be implemented with 1031's through DSTs, that can help you to preserve cost basis, deferred taxation, find new depreciation, gain more diversification, and also have less obligation. Please consult your CPA and or financial advisor who can provide this type of solution through DSTs.

6) Fees and Mutual Funds

In everyday life, the total cost of ownership informs many of our major purchase decisions, although we may not think of it that way. For example, when shopping for a car, it's common knowledge that there is much more to the total cost of ownership than the sticker price alone—buyers must take into account less obvious costs such as the reliability of the car, its fuel economy, how much it will cost to insure and repair, and more. There are also opportunity costs associated with buying a car, because spending money on one car means giving up all the other cars that a buyer may have looked at. In this light, it's easy to see how crucial it is that a buyer determine whether the car they choose will meet their needs based on their lifestyle and preferences. To learn more, they may even look under the hood to get a better handle on how the car really works and if they'll get the performance they desire from their purchase—how does the engine work? How does the car drive in inclement weather? Will it be able to handle rough back-country roads, or is it more of a city car? Moreover, can you count on this car to deliver the performance you're expecting over the long haul?

Similarly, it is important to take a closer look when it comes to evaluating what they are investing in, gaining a deeper understanding of the explicit, implicit, and opportunity costs associated with owning a given fund. Although it may be the most visible and obvious cost, the expense ratio of a Mutual Fund is just the tip of the iceberg. By taking the total cost of ownership into account and looking "under the hood," investors will be better-positioned to make informed investment decisions regarding the investments that suit their individual needs.

Expense ratio is actually a broad term that encompasses the range of expenses associated with managing and administering a Mutual Fund, including the management fee, custody, and acquired fund fees and expenses (AFFE). In many ways, the expense ratio of an MF is roughly analogous to the gas mileage of a car. It is the most prominent and obvious ongoing expense, can easily be compared from one fund to the next, and as such is a frequent topic of discussion in the media. For many investors, this is the single most important cost that they consider when evaluating different Funds. However, just as with gas mileage for automobiles, the expense ratio only tells a small part of the story.

Here are the areas that you want to be paying attention to… management fee, custody costs, acquired fund fees and expenses, commission, spread, capital gains, turnover, tracking error, distribution fees, portfolio concentrations and of approaches to portfolio exposures.

According to the research of Tony Robbins in his book money master the game, he shared that he was surprised to find out that the average true cost for mutual funds in America was 3.16%. Since learning about this he has used his celebrity platform to expose this misunderstanding and communicate the value that exchange traded funds or ETF’s can provide in comparison.

7) Sequence of Return Risk

The rules change on us as we transition from the accumulation (or savings) phase into the distribution (or spending) phase of our financial lives. The challenge is that this is a major mindset shift as we transition from depending on our employment for a paycheck, to depending on our savings and resources accumulated to maintain our quality of life. Additionally, because our priorities and needs change, the way that we invest and look at our investments needs to change as well.

As an example, the best thing that can happen to a Retiree is a bull market given that they have a lifetime worth of savings that will be benefited by the increase in the market cycle. A bull market on the other hand is the worst thing that can happen to someone in the accumulation phase (especially early on) given that their contributions out of each paycheck are buying a more expensive rising market which makes their cost basis much higher over the lifetime of their portfolio. Of course, that would also mean that for someone accumulating that a significant bear market would give them the ability to buy at a much lower price and given them a better chance for appreciation over their lifetime of investing. The retiree who experiences this type of negative market fluctuation is going to be impacted far greater given that their lifetime savings would decline significantly during the time that they need it most.

JACK BOGLE WARNS: Prepare for Two Massive Market Declines in The Next Decade

CNBC anchor Scott Wapner April 1, 2013

> CNBC anchor Scott Wapner put the question to Bogle: "You say, 'prepare for at least two declines of 25-30 percent, maybe even 50 percent, in the coming decade.' For a buy-and-hold guy, that's a little concerning, don't you think?"
>
> Bogle replied:
>
> > Not at all. They come and go. The market goes up, and the market goes down. It's never failed to recover from one of those 50 percent declines.

Although Jack Bogle is a very reputable individual in the world of finance, you need to understand the impact of what he is predicting would have on your retirement. Unfortunately, many who retired in the timeframes of 2000-2008 know the impact that these fluctuations have had on their account values and have not recovered to the levels that they were at prior to these crashes given their need to be metaphorically eating their seed in order to survive during the best years for growing.

The challenge in retirement is to make your money last as long as you do. All of the challenges listed in the previous chapter strike at the heart of the issue: Will you have enough money to last 30-40 years in retirement?

8) Interest Rate Risk

One of the most important decisions you will have to make in planning for 30-40 years of income in retirement is the sources you will take income from. Over the years the general practice has been to develop a conservative portfolio of stocks and bonds and withdraw a certain percent from those assets each year. The standard for withdrawals has been 4% in the industry, meaning that if you take 4% out of your retirement plans you should be able to make your money last a lifetime.

According to an article in May 2013 of the New York Times, Bill Bengen, owner of Bengen Financial Services in San Diego, created the 4% rule in 1993 when portfolio returns were averaging around 8%. Mr. Bengen suggested a portfolio of 60% large-cap stocks and 40% intermediate-term government bonds. He examined every 30-year period since 1926. **However, with interest rates today falling below 2-3 percent on fixed assets like we see today in 2018, it severely dampens the results on 40% of the assets in Mr. Bengen's model.**

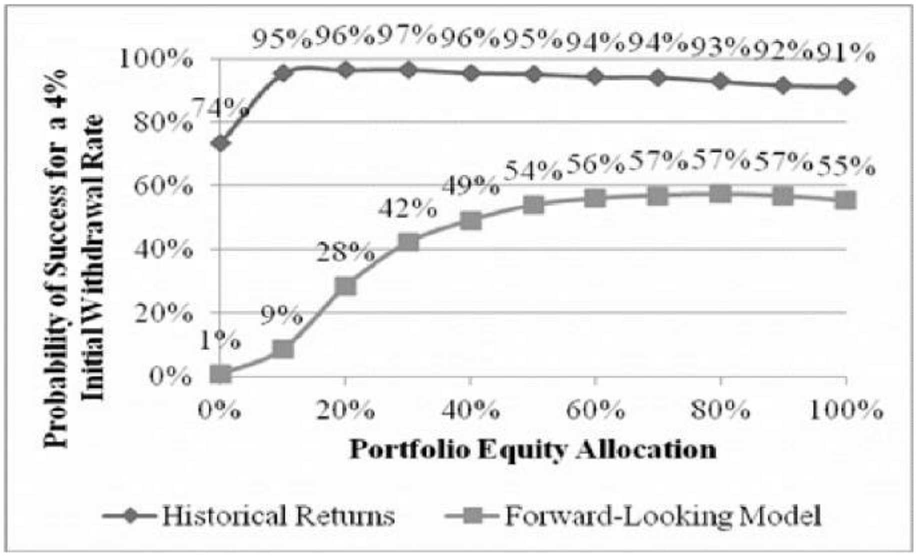
More recent studies have shown that the 4% rule in today's economy is definitely in question. In the abstract from Michael S. Finke's "The 4 Percent Rule is Not Safe in a Low-Yield World" the professor from the Texas Tech University in Lubbock, Texas said the following on January 15th, 2013: "Using historical averages to guide simulations for failure rates for retirees spending an inflation-adjusted 4% of retirement date assets over 30 years results in an estimated failure rate of about 6%. **However, this modest projected failure rate rises sharply if real returns decline.** As of January 2013, intermediate-term real interest rates are about 4% less than their historical average. Calibrating bond returns to the January 2013 real yields offered on 5-year TIPS, while maintaining the historical equity premium, causes **the projected failure rate for retirement account withdrawals to jump up to 57%. Therefore the 4% rule cannot be treated as a safe initial withdrawal rate in today's low interest rate environment… Because of sequence of returns risk, portfolio withdrawals can cause the events in early retirement to have a disproportionate effect on the sustainability of an income strategy.** We simulate failure rates if today's bond rates return to their historical average after either 5 or 10 years and find that failure rates are much higher (18% and 32%, respectively for a 50% stock allocation) than many retirees may be willing to accept. The success of the 4% rule in the U.S.

may be an historical anomaly, and clients may wish to consider their retirement income strategies more broadly than relying solely on systematic withdrawals from a volatile portfolio."

If the 4% rule is flawed, then what are the alternatives?

"Retiring in a Low-Return Environment"

January 20th, 2015 - By David Blanchett, Michael Finke, and Wade Pfau



Do we really care what a historical safe rate of return is, if that information is not applicable to our retirement or lifestyles given the interest rate environment we find ourselves in at retirement?

60% Equity Allocation							
		Retirement Period (Years)					
		15	20	25	30	35	40
Target PoS	99%	4.0%	2.9%	2.3%	1.9%	1.6%	1.4%
	95%	4.8%	3.6%	2.8%	2.4%	2.1%	1.9%
	90%	5.3%	4.0%	3.2%	2.8%	2.4%	2.2%
	80%	5.9%	4.5%	3.7%	3.2%	2.8%	2.6%
	50%	7.2%	5.6%	4.8%	4.2%	3.8%	3.5%

Who's looking out for you?

I meet with retirees and pre-retirees every week—many of whom tell me that they have been "working with a retirement-planning firm for years!" yet when we dig into what they actually have, there is often not much more than a diversified pie chart of stocks, bonds and mutual funds. What's astonishing to me is that many of the big Wall Street firms who are considered by most to be a trusted name in finance have been hanging their shingle out as "a retirement planning firm," yet we find that very few have done much to provide advice for their customers on massive issues like maximizing their Social Security benefits or how to efficiently coordinate withdrawal strategies that will help their clients to minimize the impact of taxes on their retirement income streams.

Let's be honest, in the face of lackluster advice and the inability of the clear majority of money managers to beat their benchmarks over time, wouldn't you agree that an investor nearing retirement should question whether they really are receiving valuable advice and potentially if they really need to pay someone to help them? This thinking is the reason why we've seen such a dramatic migration away from the traditional advisor/client relationships to the passive, low-cost indexing platforms like Vanguard and many 401k platforms have made available.

My goal in this brief section, is to summarize a few studies that both Morningstar and Vanguard have independently compiled to identify if there really is a quantifiable value that an advisory relationship can provide beyond a good pie chart. What you will come to understand is that there are many things that we cannot control, like what the markets will do on a year over year basis. But there are plenty of things that we can do through strategic coordination that will help us to identify efficiencies and inefficiencies in funding their quality of life, which can make a considerable difference.

While each investor has different goals that change how they would rate a "good financial decision," for the sake of this discussion, let's say that it's not the highest potential return. Rather the definition of a good financial decision depends on the effectiveness of meeting your financial goals. For most clients, this refers to their quality of life in retirement.

The following third-party, independent sources have shed light on the math and science of what the true value of an advisory relationship should look like, and what a retiree should be looking for in a relationship with an advisor. I encourage you to read each of them to gain the full perspective.

VANGUARD
Vanguard conducted a study that showed the potential impact that a professional financial advisor's knowledge and experience can have on the growth of a clients' retirement accounts. The study considered three "best practices" that investors can use when controlling their accounts. These best practices are not necessarily geared toward getting the highest return for all investments, but rather accounted for several other factors, such as reducing tax liability, investment or transaction costs, and managing risks. They learned that a retirement plan, if properly managed by an experienced advisor, can produce as much as a 3% net benefit beyond a do-it-yourself (DIY) investor. The advisors could find these extra growth opportunities by focusing on low-cost investments – those with low expenses, choosing appropriate accounts for tax reduction, by selecting a wide variety of investments, and by focusing on total return, as

opposed to increased income. In addition, the advisors could coordinate an account withdrawal strategy, reallocate funds for the best possible scenario for tax/income purposes, and encourage their clients to hold steady to the investment plan, even when things appear to be less than desired. Vanguard provides greater details in their full-length study on this topic called *"Putting a Value on Your Value."*

MORNINGSTAR

The folks at Morningstar Investment Management also researched the impact that the right financial advice could make on the growth of retirement accounts, as opposed to DIY investors, who they refer to in the study as "Naïve Investors." Morningstar researchers took five different issues related to making good financial decisions and explained how naïve investors typically react to the issue, as opposed to the better outcome that a financial advisor could have inspired if providing the appropriate guidance. The issues discussed in the study included how to allocate the client's total assets, decisions on income planning, deciding which accounts, and how many products to use in retirement planning, how to leverage tax advantages through allocation and withdrawal strategies, and considering expected expenses during retirement. **The Morningstar study concluded that using the improved methods as suggested or recommended by financial advisors could boost the clients' retirement accounts by as much as 31% or provide an additional 10 years of income.** Full details can be found in their research paper, "Alpha, Beta, and Now… Gamma."

Many retirees today are finding out that the number-one expense that they will have in retirement is taxes, as most people have saved in large 401(k) and IRA accounts and have very little Roth or after-tax dollars. For the majority of families today that are looking to retire on income between $50,000 to $120,000 they are typically unaware of the significant things that they can do to improve their ability to fund their quality of life. **The single greatest value that an advisor can contribute to a relationship is taking someone through an evaluation process designed to create a tax sensitive investment and distribution strategy, which starts with maximize their Social Security benefits over an expected lifetime.** We regularly see an optimized Social Security strategy add anywhere between $50,000 to $200,000 in additional benefits over a lifetime. In addition to this increased monthly benefit that this can provide, the fact that these Social Security dollars have tax-preferential treatment means that they will also provide tens of thousands of dollars in additional tax savings over a lifetime as they now represent a larger portion of income funding the quality of life. **The revelation of Social Security is not when you file, but rather how you file in conjunction with other income streams in order to create the largest after-tax income.**

Of course, these studies are limited in the extent of value that can be definitively measured. Financial advisors can add all sorts of non-monetary value, such as lessening the risk of poor financial decisions caused by declining cognitive ability, protecting and supporting family members who are not as financially savvy but may be left in charge, as well as helping to coordinate Estate matters, Medicare and other healthcare decisions as they age.

Surveys of affluent Americans consistently tell us that they believe that their advisors should be more proactive about future issues that might affect their financial well-being. Math and Science tell us that addressing those issues and concerns becomes significantly more important as someone nears retirement, and that it's imperative to address these issues with a logical, proactive approach.

RETIRE: Discovering Critical Facts

If there was a missing piece of information that was costing you money now or could potentially cost you significantly more money in the future, when would you want to find out about it? Today? 5 or 10 years from now? Never? If that piece of information was a ***must know*** fact, would you agree you would want to know about it ***before*** making any financial decision, especially one that put your money at risk?

Many times, investors don't have a process to filter out myths and misconceptions to find out the ***must know***, critical facts to make logical decisions for their future. Do you know what questions to ask? Have you quantified hidden fees, taxes or risk issues? Have you made decisions based on myths, misconceptions, opinions or missing facts?

At Sound Planning Group we have created a retirement planning process we call RETIRE. It stands for Retirement Education, (with a) Time-tested, Independent Evaluation. It is our belief that our process of Discovery, Recommendation and Plan Implementation is second to none and should be adopted by those who are serious about understanding how to take a plan that might be good, to better or best.

Wouldn't you agree that if you found out that there were flaws or missing pieces of information in your decision-making process that you would have a difficult time identifying where your money was falling through the cracks? Would you also agree that if you knew this critical information that you would be better able to make sound financial decisions that are in your best interest?

Each type of investment has a specific purpose or place where it may fit properly into someone's retirement planning, but without a complete review of your personal situation, risk tolerance, income needs, tax situation, healthcare needs, and estate and charitable desires, no one should have an opinion on whether a specific solution is right for you. The discovery of your true needs and desires is the first step you should take, as opposed to starting a process by choosing investments (as most take as their first step in an investing process).

3 Step Review Process

We believe that systems built on logical, quantifiable steps have the greatest ability to lead to your success. The following **3 Step Review** will help you discover if your current strategies match up with your future plans. This proven process helps us create a sound plan based on facts and logic, not emotion and opinions.

The **first step is a forward-looking review of your tax return** to determine your current tax situation. We identify things like phantom income taxation, uncover incorrect uses of taxable and tax-deferral strategies, and discover missed opportunities for offsetting gains and losses. Our 3 Step Review would help you implement the correct strategy to **lower or eliminate your taxes** and find money falling through the cracks now and in your future.

The **second step is an income analysis** to determine if you are using your income sources properly with tax efficient methods. With the ever-increasing cost of inflation, we find out if you have adequate **income and liquidity to meet your future needs**. Your actual inflation rate may be different from the government quoted inflation rate as your rate is based on what you spend, and specifically the COLA assumptions that should be assigned to those expenses. As an example, Healthcare and Real Estate Taxes are likely to represent a higher inflation than your fixed mortgage (where the payment is the same every year), or the cost of goods and services which tend to represent lower inflation estimates today.

The **third step is a risk analysis** to make sure your investment risk exposure is one you are comfortable with and is in line with your investment allocation strategies. Research shows people make poor decisions, receive low rates or incur losses because they have more risk than they are comfortable with. A simple set of questions will help us identify your true risk comfort level and possibly help you **avoid greater losses** than you were prepared to handle or were not aware of. We also in this step want to review the fee's you are paying and how intelligently your current portfolio is invested in comparison to efficient math and science-based portfolios.

Look forward and take control with a **3 Step Review**. Find out if you have problems like phantom income taxation or other tax issues. Are you preparing to sell real estate? Do you need to increase your income stream or lower your risk level? Have you lost a spouse and now have all the financial decisions to make? Are you retiring or rolling over a large sum of money? A complete discovery of what you want your money to do for you could be the first step of giving you peace in these transition moments.

The wonderful benefit of our **3 Step Review** is that it applies to any financial decision or concern you have, it helps you stop your money from falling through the cracks, and it **assures that any major financial decision is right for you.** Learn what questions to ask before making any financial decision and assure your decisions are in your best interest.

Yes, the landscape is changing, but it's our belief that with the right tools and information you can easily stay ahead and prosper, living a well-funded retirement. It's our hope that after taking a tour through these issues you'll be ready to move forward with confidence in creating a plan for retirement. If you are still confused about how the new tax laws and how they will impact you, we suggest that you find an advisor that specializes in retirement income planning and can provides this advice as one of the key components to structuring a comprehensive retirement plan based upon your needs, goals and desires.

To your success!

Questions to Ask an Advisor before Hiring Them

(Be sure to write down word for word answers to your questions)

1) What type of tax advice do you provide through your retirement planning process?

2) How do you help your clients control their tax liabilities on a year in and year out basis?

- (If their answer is… "a CPA is the only one who can do this for you.")
  You should then ask: What does it typically cost for a CPA's time to both review and create an ongoing tax forward plan designed for efficiency like this?
- What is your involvement in the process of the CPA's plan?
- Once the advice has been rendered, what would you do to manage this area going forward?

3) How has the *Tax Cuts and Jobs Act* affected the advice that you are providing?

4) How do you determine when your clients should draw Social Security benefits or receive a pension benefit?

5) What services do you render for the fees that you charge?

- Does that include a written income plan that quantifies the unique tax withholding percentage from each type of taxable withdrawal?

6) What is your investment philosophy? (Ex: Buy & Hold, Active/Tactical, Mutual Funds, ETF's, Individual Stock/Bond,)

7) What recommendations did you make to your Conservative to Moderate retirement clients before 2008?

- What was the average performance of your Moderate to Conservative portfolio in 2008?

8) How have you positioned your retiring client's portfolio's given today's record high equity markets and the rising interest rate environment?

9) Who determines the securities that you can provide in your clients' portfolios?

- Does your firm receive additional compensation for any of the securities that you represent?
- Does that mean that you are <u>independent</u> and that there are no limitations in your offerings of well-known and suitable securities?

10) How long do you intend to practice?

- What happens to my accounts if something happens to you?