# THE LITTLE RED BOOK OF RETIREMENT

## The Basics of Retirement Investing

***EVERYTHING***
***you need to know to prepare for your retirement.***

**PRESENTED BY DAVE LOPEZ**

# THE LITTLE RED BOOK OF RETIREMENT

*THE BASICS OF RETIREMENT INVESTING*



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# FOREWORD

## *By Dave Lopez*

I have been blessed to watch three sets of relatives walk through the retirement process from beginning to end. I watched them enter retirement, enjoy and struggle in retirement, and "gracefully" exit retirement.

Things could not have gone smoother for my grandparents Dotsey and Johnny. They were from the pension generation. They retired at age 62, had modest savings, no debt, and five pensions. During their ideal retirement, they never once worried about the stock market, outliving their money, or wondering if they should change their investment strategy, etc. Their only focus was making sure they lived within a budget based on those five pensions. They lived 30 years in retirement and died within one week of one another at age 92.

I wish it could be so easy for all of us, but that world is gone forever. Today the responsibility falls solely on our shoulders to make sure we have the money we need to realize our dream retirement. But when the economy and market experience turbulence and uncertainty, we often feel woefully unprepared.

The challenge is that most of us don't have formal training, education, or understanding of the intricacies of retirement planning. We don't know what we don't know. As a result, we are mired in indecision, missed opportunities, and inefficient plans due to our lack of knowledge on the subject.

That is what ultimately drove me into this industry. As I watched my relatives go through retirement with poor outcomes, I knew there had to be a better way to plan for retirement than to simply put some money in stocks, some money in bonds, and hope for the best.

The good news is there is a better way. As a Computer Science and Math Major, I am an analytical thinker. Over the last 10 years building hundreds of retirement plans for my clients, I created a systematic process to methodically design a retirement plan based on your individual goals, risk tolerance, and needs. My system addresses concerns, identifies the investment tools that would be the best fit for your goals, and shines a light on the advantages and disadvantages of all options so that we can make an educated decision. Together, we can build a retirement plan that gives you the best chance for success.

The Little Red Book of Retirement is a starting point for you to begin to obtain the knowledge you need to make informed decisions about all the factors that will affect your retirement. I encourage you to read this book with an open mind and begin to think differently about retirement. Don't limit your success or create more risk based on incorrect information, misinformation or myth.

I hope the information in this book helps you look forward to a more fruitful and comfortable retirement.

Dave Lopez

**Dave Lopez**
*Founder of ILG Financial*
www.ilgfinancial.com

# CHAPTER ONE

## *Retirement Investing*

**Always have a current comprehensive lifetime financial plan prepared.**

Your financial plan should be completely personalized to your individual situation and take a multiplicity of factors into account, including but not limited to your objectives and life goals, assets, liabilities, income, inflation, income taxes, spending, and more. This plan will need to be updated as things change and can quickly become outdated. Try updating your financial plan periodically to ensure that any changes and new goals are accounted for.

**Ensure that your financial plan is not just a bet.**

A well designed financial plan should account for potential risk and protect you if those events occur. True financial security planning means that you have a plan in place to protect against what could go wrong so that you can afford the luxury to invest for what goes right. Planning for long-term growth can be a little easier if your strategy also hedges against risk. Prudent and responsible people don't bet with something as important as their financial future and ability to provide their family with financial security.

**After you create a financial plan, have a plan for executing it.**

Having a financial plan is great, but executing a plan with discipline is how you put that plan into action. A good financial plan should be adaptable to market and lifestyle changes and as such requires attention and maintenance. Particularly in retirement planning, a personalized execution strategy will help you assess your nest egg's potential to support you for the rest of your life.

**Try to be debt free at retirement.**

Too many people today enter retirement with high, non-mortgage debt.  While you likely have a 401(k) or some sort of income coming in, having debt in retirement can seriously impact your ability to retire comfortably. Retiring debt-free and mortgage-free while saving for retirement can seem like a daunting task, but one you'll be happy you completed once you are retired.

If you have debt, pay extra on the highest rate loans first.

This method is also known as the "debt avalanche," where you pay each of your debt's minimum monthly payment and devote the rest of your repayment budget to your highest interest loan. When consistently followed, the avalanche method indisputably minimizes your overall interest payments as it slows down the interest accumulation rate and increases the speed at which your debt is paid off.

**Don’t invest using your emotions.**

Warren Buffett once said, “Be fearful when others are greedy and greedy when others are fearful.” Unfortunately, when the market goes way up, people tend to follow the herd, get greedy and buy more. Buffett suggests this is actually the time when you should be more “fearful” and sell. In contrast, when markets go down, people tend to be fearful and sell when they may be better off buying more. Try to leave your emotions out of investing to have a better chance of buying low and selling high.

**Don’t try timing the markets. Create a well-designed, comprehensive financial plan and execute it.**

Focus on time in the market rather than market timing. Historically, the market has acted just like a child on an escalator with a yo-yo. While the yo-yo goes up and down, the market as viewed over a long period of time has continued to trend upward. When trying to “beat the market” you have to be right twice—when you get in and when you get out. Develop a plan that is prepared for market ups and downs and make sure that the level of risk is right for you.

**Make sure you don't have too many "eggs in one basket" by employing diversification in your portfolio.**

Imagine you're holding one pencil in your hand. Try to snap it. It may take a little effort, but it's relatively easy to break just one pencil. Now, repeat this exercise with 30 pencils. The effort required to break this stack is far more difficult, and likely impossible, to do. The stock market works in the same way. Having your portfolio depend on one company's stock or one sector of the market can seriously inhibit your ability to hedge against risk. The goal of diversification is for the value of the assets in your portfolio not to move in the same direction all the time.

**When selecting a financial advisor, you have options. Make sure the option you choose works best for you.**

Think of your financial advisor as a doctor for your portfolio. You take comfort in knowing that doctors are required to follow the Hippocratic Oath and must put your personal care above their gain. Similarly, advisors that are fiduciaries are held to a higher standard as they are required to act in your best interests. Non-fiduciary advisors are required by law to give "suitable" advice to their clients, meaning they are required to suggest investments that are suitable but these do not necessarily imply the best suggestions.

**When selecting a financial advisor, consider selecting an advisor that has the resources to answer your income tax, estate tax, trust, and legacy questions.**

Bring together a team of three experts: a Certified Public Accountant (CPA), Financial Advisor ( Investment Advisor Representative - IAR), and an Estate Planning Attorney (EPA). Put them in the same room and make them work together for your benefit by authorizing them to disclose information to one another on a real-time basis. They should all know what you have, where it's located, how it's being used, how it's held, and where it's going when you die. Typically, you can get to the other two through the one relationship that you may have. For instance, if you have a CPA, ask for referrals to an IAR and EPA.

**Follow the money before following the advice. Find out how the advisor gets paid.**

When navigating your investment options, it can seem like you're getting a lot of different suggestions from various financial professionals. Advisors are either "fee-based" or "fee-only". While these sound similar, they're actually very different. Fee-based advisors receive fees and can accept commissions from financial products recommended or sold. This may lead to conflicts of interest as the advisor could be more inclined to recommend products he/she receives commission on. A fee-only advisor, on the other hand, only receives compensation from fees directly from clients, and they don't receive commissions on the sale of financial products recommended.

**If you have an older long-term care policy—it may be best to keep it. Replacement policies today may be more expensive.**

While Long Term Care (LTC) policies have improved in their coverage over the years, keeping an old policy could prove worthwhile. LTC insurance is age and health sensitive, so your policy will likely have been cheaper if you purchased it at a younger age and it's likely that you were healthier at the time of purchase as well. If you are considering purchasing a replacement policy, be sure that you are still insurable, that you keep your old coverage until your replacement policy is approved, and that your premiums aren't significantly higher.

**If you are working and have a self-directed retirement plan at work, make sure the investment allocation is reviewed and adjusted at least annually.**

With a self-directed retirement plan, it can be easy to neglect checking on it when you're busy with other things. However, there could be serious implications for your portfolio if your retirement plan is not updated at least annually. Be sure that your investment allocation strategy is up to date to maximize your nest egg potential.

**Don't just limit your portfolio to stocks and bonds. Learn about how real estate, paying off debt, annuities, and furthering your education can be potential alternatives.**

Diversification of your retirement assets can be a powerful mechanism that provides options and flexibility in retirement. Having different choices may decrease your risk and lessen the probability of overwhelming financial setbacks due to having too much weight in one particular asset class.

**Don’t have too much of your investment in your employer’s stock.**

You depend on your employer for salary, benefits, pension, and sometimes even health insurance in retirement. While you may feel comfortable in investing in your own company at such a high rate, this allocation should be reviewed and potentially reduced to a far lesser percentage of your net worth. Diversification is key to minimizing unsystematic risk associated with investing in one company/industry.

**Don’t fall in love with a particular company stock at any price, and have a system to determine if it gets overvalued.**

While most of us spend hours searching for the best deals for other things, this sort of mentality doesn’t seem to follow when people invest. Falling in love with a stock and holding on to it for emotional reasons may cause you to hold on for too long and miss out on gains you could have earned if you were looking at the stock based on its price and not the emotional value attached.

**There may be a better alternative to the "rule of 100" used by many advisors.**

The rule of 100 says that at age 60, you should have 60% of your portfolio in bonds and 40% in stocks. This is based on the idea that the older you get, the more money should be allocated to "lower-risk" investments, like bonds. However, when interest rates rise, bond prices will fall. Knowing that, having almost your entire portfolio in bonds might actually be more risky.

**Take a test on your risk tolerance—don't just guess at it.**

Everyone has a different tolerance for risk. Your investment strategy and allocation should match that risk propensity depending on whether you're conservative, aggressive, or some sort of mix. Without fully understanding risk preferences, most people are overly aggressive when the market is up and overly conservative when the market is down.

**If you don't have an investment plan and aren't sure what to do, keeping investments in cash may be appropriate until you do have a plan.**

Before entering the market, you should have a plan. Investing is no easy task, especially when it's not your full-time job to stay on top of it. This is where an experienced financial advisor can help. They should assess your risk tolerance and take your individualized situation into account before making any recommendations for asset allocation or investments, and serve as a great behavioral coach along the way.

**Once you have a good investment plan, execute the plan and consider consolidating all retirement accounts.**

People today have more jobs than they used to in the past. This may lead to more than one retirement account, each potentially with different investment allocations—some of which may be outdated. Consolidating your retirement accounts can provide you with convenience and control over all of your retirement accounts. It may make managing your investments easier with a single point of reference. This may also help you potentially reduce fees associated with multiple accounts, determine a sustainable withdrawal strategy, manage the process of taking RMDs, and keep your asset allocation updated to reflect what's best for you today.

**Rolling your 401(k) type balances out of your plan at age 59½ may allow you to take better control and improve your retirement investments.**

At 59½, you may be able to roll over the current balance of your 401(k) into an IRA. This may allow you to access hundreds or even thousands more choices for your investments than what your current 401(k) allows. On top of this, you could potentially take advantage of lower-risk insurance company investment options while still continuing to contribute to your current 401(k) plan and receive your employer match. You should also consider the fees you are paying in your 401(k) vs. your own IRA. Your 401(k) fees may be covered by your employer and lower in comparison to your own IRA.

**Know the percentage of your assets that can grow in a good investment market.**

Diversification is important — in regard to the amount of your total portfolio that is designated for growth as there is a "risk-reward element." While it's great to take advantage of a rising market, this portion will vary based on age and risk tolerance. Your growth assets likely should be balanced with options that may not have the same upside, but are less likely to be impacted by a market collapse.

**Know the percentage of your assets that are secure and protected from losses in a bad investment market.**

For most of our pre- and post-retirees, protection of principal is a strong desire and an important financial objective. With volatility being the primary guarantee from the market, it's important that a portion of your money is in secure investments independent of the market. Protected assets may include cash accounts, bank CDs, fixed annuities, and fixed-indexed annuities. Consult your financial advisor to determine which investments are a best fit for you.

**Know the percentage of your assets that will help protect you from inflation.**

In your lifetime, you've seen the price of a candy bar go from pennies to dollars. With people living longer, retirement money needs to last longer and account for inevitable cost of living increases to keep up with the standard of living you desire.

**It may be advantageous to refinance your mortgage loan prior to retirement to a 10-15 year loan to reduce your interest rate.**

If you can afford a 10-15 year fixed rate mortgage, you can pay off your mortgage prior to your retirement date and be mortgage free in retirement. Paying more now will be worthwhile when you have no mortgage debt to worry about later in your retirement budget.

**A reverse mortgage could have benefits but think it through.**

With a reverse mortgage, you give your bank a mortgage on your home and receive monthly payments until you die, move out, or turn 100 years old. While this sounds like a great plan, a reverse mortgage may not be worth the risk. Inflation can impact the purchasing power of your reverse mortgage payments, and the risk for default on your reverse mortgage is at an all-time high when you combine weak purchasing power with the potential for unexpected bills, medical expenses, and home repairs that may arise in this time frame. If you are considering a reverse mortgage, be sure that your spouse's name is included on the mortgage and that you've taken all of the risks into account.

**Consider a home equity line of credit—even if you don't plan to borrow on it.**

As long as you have a plan to pay the line of credit off shortly after it's used, a line of credit can help those who need quick cash to be used immediately. You don't have to use it, but it can give you a liquid cushion if there's ever a need for one.

**Don't delay your required minimum distributions.**

When you turn 72, you are required to take annual minimum distributions from your retirement account. Make sure the required minimum distribution is being taken every year from retirement accounts to avoid the 50% penalty.

**Understand how price-earnings ratios can be used to evaluate your investments.**

The P/E ratio uses earnings per share divided into the current stock price. When a company has a low P/E ratio relative to others in its industry, it may mean that the stock price has not yet come to reflect increased or constant earnings. This also might indicate that the stock price may increase in the future. We believe that looking at this ratio is an easy way to apply the concept of "buying low." Warren Buffett has made a pretty decent living applying this concept.

**Understand how forward looking PEG ratios can be used to evaluate your investments.**

The forward PEG ratio may prove to be more predictive than the P/E ratio alone. This ratio takes the stock price, earnings per share, and a company's expected growth rate into account. A lower PEG ratio may signal an opportunity as those companies may be undervalued compared to their growth potential. In relation to both the P/E and PEG ratio, be sure that you understand their limitations in your decision-making process.

**Beware of investing too much in real estate later in life, it can become a job you weren't planning on having in retirement.**

While real estate investments may provide portfolio diversification and returns in retirement, there are risks that must be considered as well. Real estate can be a timely and costly investment. Among other things, it's important to understand how to avoid investment losses and steer clear of potential tax drawbacks related to your real estate investment.

**Understand how "cap rates" can be used to evaluate your rental real estate holdings.**

Capitalization rates are the rate of returns on your real estate holdings based on the income your property may generate. This ratio can help you track whether or not your performance is improving over time. Higher capitalization rates are better, and good real estate investments should experience an increase in net operating income (NOI) as property value increases. For example, if a property is bought for $1 million with a NOI of $70,000, the capitalization rate would be 7% — meaning that 7% of the value of your property is being earned as profit. However, if the market value increases to $2 million without a change in NOI, the cap rate is reduced to 3.5%. This is where you may consider finding ways to increase NOI or finding an alternative investment.

**Learn about the different types of mutual funds as it relates to their "loads" and "fees."**

Mutual funds are separated out by share classes. Class A shares have up-front sales loads or commissions that are taken from initial investments. These commissions are sometimes over 5%. B-shares on the other hand, are characterized by a back-end load that causes some individuals to hold off on selling the fund to avoid paying the fee. C-shares have no loads, but it must be cautioned that they have the highest internal fee of any share class. There are also I or Y shares (institutional class or investor class shares) that you have to qualify for. A financial advisor, particularly an RIA, can help you decipher your options.

**Tax efficient ETFs may be an appropriate alternative to mutual funds for some.**

While both are viable options to investors, ETFs and mutual funds differ in ways that investors must consider when deciding in which to invest. An Exchange Traded Fund is one of the fastest growing investment tools and comes with no sales commissions. ETFs often have lower internal fees than mutual funds. ETFs can be more tax efficient than mutual funds. For example, the sale of securities within the mutual fund portfolio creates capital gains for the shareholders, even for shareholders who may have an unrealized loss on the overall mutual fund investment, whereas an investor in a ETF usually is not exposed to capital gains on any individual security in the underlying structure. Further, ETFs have no short-term redemption fees and can be traded at any time during the day. ETFs, however, come with downside risks such as trading fees and market fluctuations that must be taken into consideration in your purchasing decision.

**If you still have dependents at home, a term life insurance policy may benefit you.**

If you have dependents, you will likely need a higher death benefit if you pass too soon to replace your income (and potentially your spouse's if he/she needs to stop working to care for the family). Term life insurance is one of the cheapest life insurance policies you can purchase depending on your age, and can provide high coverage for the lowest premiums. Be sure to understand all of the provisions and limitations associated with term policies before making a purchasing decision.

**At age 65, it may be advantageous to buy the most comprehensive Medicare supplement policy you can.**

A Medicare supplement plan is something you can purchase to pick up a lot of what Medicare doesn't cover. For instance, this supplement covers copayments, coinsurance, deductibles, and sometimes even medical care outside of the United States. You don't have to physically qualify for the policy, and there are about ten different plans you can pick from. You need to have Part A and Part B Medicare to qualify and separately sign up for Part D to get prescriptions. Supplement policies don't cover everything, like long-term care for example, so be sure that you understand the benefits you'll be receiving and their limitations.

**Understand the limitations of your non-medical insurance policies and if you'll need more coverage.**

If you were to have an accident and something were to happen to you or your house, are you appropriately insured? Umbrella insurance policies can protect you when your particular insurance policy is not enough. This policy goes above the insurance policy's limit and can protect your assets from an unanticipated incident.

# CHAPTER TWO

## *Taxes*

**Consult a CPA before making a decision that involves large tax questions.**

A CPA will work with you collaboratively to understand the financial ramifications of your big decisions and should run a tax projection for you as well. He/she can also give you advice on financial missteps to avoid and tax saving opportunities you may have been unaware of.

**CPAs can be valuable, but don't take their investment advice if they aren't licensed to give it.**

Taxes may take up about 30% of your overall expenses. As such, a CPA's advice can make a dramatic difference to your portfolio. After all, it's more about what you keep than what you make. When it comes to investment advice however, unless your CPA is also a licensed financial advisor, he/she is not able to recommend specific investment advice. You want to be sure that your investment advisor is credentialed and licensed to receive the best advice possible.

**Understand tax basics and the differences between the terms tax credit, tax deduction, tax deferrals, and tax free.**

A tax credit is a dollar for dollar benefit. A tax deduction is worth your highest marginal tax bracket, for instance 28 cents on the dollar.

Tax deferred retirement accounts delay when you will pay your tax to later years, like your 401(k) for instance. Tax free means you owe no tax.

**Have different tax buckets to pull from in retirement.**

In retirement, tax diversity in your investments is similar to playing a strong card game with the IRS. It allows you the ability to play the right cards at the right time and minimize the total tax burden on your retirement account. Aim to not only have money in the traditional taxable investments, like your 401(k), but also in savings accounts and tax-free accounts like a Roth IRA. A trusted financial advisor can help you discover how much you should have in each bucket and help you execute your game plan.

**Before planning distributions from your retirement accounts for the upcoming year, make sure you have reviewed the most advantageous tax strategy.**

Tax diversity in retirement can give you different buckets to pull from strategically. Understanding the most advantageous tax strategy can allow you to maximize the effectiveness of your financial plan and minimize your tax burden. Your financial advisor can help you to know which buckets to pull from and when.

Don't be afraid of paying off your house because you are worried about losing the mortgage tax deduction.

The mortgage tax deduction doesn't always add up to what we think it will. Depending on your individual situation, you may be better off paying it off completely. Entering into retirement without a mortgage payment can also be a great way to relieve pressure on your retirement assets and reduce your monthly outflow.

**When selling your principal residence, make sure to get professional guidance on the tax implications and opportunities.**

Tax rules relating to the sale of a home have changed significantly over the years. You'll want to know what the gain or loss on your home will be as each can have tax implications and opportunities that you'll not want to avoid or miss out on.

**If you own a rental house with large gains and are thinking about selling it, consider making it your personal residence first.**

If you move into your second home for two years, you may be able to eliminate up to $500,000 in taxable gains. This savings could greatly impact your retirement nest egg potential.

**If you start consulting in retirement, don't forget the self-employment tax time bomb.**

Many people don't put away taxes as the income is earned. Remember, when self-employed, you pay tax at your highest marginal rate plus another 15% self-employment tax.  This can mean serious implications for your financial health if not understood or planned for.

# CHAPTER THREE

## *Guaranteed Income Streams*

**Make sure you have options for guaranteed income in retirement.**

Retirement isn't like it used to be. With fewer sources of guaranteed income from employers, it's important that retirees fill these voids and have money to spend on a monthly basis. Outside of company pensions, cash flow can be found from annuities with guaranteed lifetime cash flow, paid-off rental properties, dividend paying stocks, installment contracts, and Social Security benefits.

**Understand how stocks, mutual funds, or ETFs offering dividends fit into your portfolio.**

Many corporations pay out a percentage of their profits as a dividend, or a sum of money regularly paid out to investors. In certain cases, the dividend payouts can exceed 5% per year. Beware of having too much invested in too few companies or too few sectors. Before the crash of 2008, the best dividend payers were banks and real estate stocks, but it was these two sectors that took the biggest losses in value.

**Consider whether a fixed-indexed annuity may suit your retirement needs.**

With low CD and money market returns lately, fixed-indexed annuities have become quite popular. Because many of these annuities cannot lose value in a particular year, they've also become a desired asset in some retiree's portfolios. Fixed indexed annuities are considered protected assets in which your principal is protected, meaning they can't lose value. This can serve as a guaranteed, protected income stream. However, you must be sure that you are invested with a highly rated insurance carrier and take into account any downsides of fixed-indexed annuities. Make sure you consider a policy that can increase its payout over time if you need inflation protection. Consult your financial advisor to see if/how a fixed-indexed annuity fits into your financial plan.

**When being offered a choice between a lump sum from your employer, and an annuity, always compare that annuity to what may be available on the open market.**

The right choice varies for everyone given individual circumstances and what you're being offered. Some annuities from employers don't account for inflation and are equipped with low interest rates (especially in today's market) among other things. Tax consequences must be taken into account as well. Making the right

choice for you, whether it be taking the lump sum and investing it, receiving your employer's annuity option or purchasing another annuity, can be a complex decision and an advisor can help you weigh your options.

**If married, it's very prudent to consider taking a joint and survivor annuity payout rather than on your life only.**

Particularly if you are the higher-income earner, a joint and survivor annuity payout option may be more practical for you as it will help your spouse offset the loss of annuitized income when you pass. A single life annuity will not provide any income to your spouse if you predecease them, but a joint and survivor payout will. This can still provide you with benefits while you're alive and continue providing your spouse with income payments if you pass, often for the rest of his/her life.

**If you don't like your insurance policy but have a gain if you cash it in, consider a Section 1035 Exchange.**

A Section 1035 Exchange allows you to avoid tax consequences when replacing an outdated policy with an improved annuity or life insurance policy. Be sure that you understand the rules associated with this exchange as the IRS will not allow tax free treatment if you cash out of one contract and take the money into a new contract.

# CHAPTER FOUR

## *Social Security*

**Don’t claim social security until you have run a social security optimization report on your situation.**

You’ve likely been paying into social security for your entire working life, and deserve to earn the maximum legal benefit that you're entitled to. Navigating social security can be a daunting task as rules change and benefits vary depending on a multitude of factors. Have your financial advisor run a social security optimization report and provide you with a plan for when to file, how to file, and what to expect based on your individualized circumstances.

**If you were the higher earning spouse, and your spouse is expected to outlive you, consider delaying your social security benefits as long as possible.**

While it may be tempting to take your social security benefit when you turn 62, waiting to claim your benefit will likely pay off higher benefits in the long run. Not only could you add up to 8% every year that you delay collecting up to age 70, but your spouse will also be entitled to 100% of your social security benefit should you predecease him/her.

**Understand the social security benefit formula as it relates to your individual situation.**

Social security pays you based on your highest 35 years of inflation-indexed earnings. If you have worked for less than 35 years, social security will mark the excess as zero in the average. It may be advantageous to work a few years longer if you are looking to increase your benefit as you could replace any of your lower income years in the social security equation with presumably higher earnings.

# CHAPTER FIVE

## *Estate Planning*

**Make sure that you have a will or estate plan and keep it updated.**

As hard as it may be to think about a plan for when you pass, passing without a plan for the distribution of your assets is even harder to imagine. Without a will, the fate of your assets is left up to the court room where the outcome may or may not be reflective of your wishes. A will allows you to designate beneficiaries, dictate who you'd like to manage your affairs, and can help you to reduce or eliminate inheritance, estate, or income taxes for your heirs. You can save your family from another hardship in what will likely be a hard enough time by simply having a will and estate plan and maintaining them.

**Make sure you add a list to your will for personal property.**

One of the most common reasons for tension in a family after a death in the family is not just the distribution of assets, it's the distribution of personal effects. Don't place the burden on your loved ones to decipher how to distribute your personal heirlooms. Leaving a plan in place can help with that.

**When estate planning, don't forget to consider the tax considerations.**

Do not transfer assets with gains from an older generation to a younger generation without tax and step-up basis considerations. These rules vary state to state and can be very complex to decipher. This is yet another reason why working with an advisor who has the resources to offer guidance on all of your income tax, estate tax, and trust and legacy information is key.

**Understand whether including trust provisions in your will or living trust can help achieve important objectives.**

Rather than a will alone, having your assets in a trust gives you greater control over what happens to your assets when you pass. Trusts can help you to establish particular provisions such as when a child is entitled to assets in the trust. This may be helpful in ensuring that the children are mature enough to handle assets and that your wealth is protected if you pass.

**If you have a living trust established, execute the instructions from the attorney and complete the transfer of assets to the trust.**

Living trusts can help you avoid probate and reduce estate taxes. Living trusts require more than just signing a document, so knowing the next steps is crucial to efficient execution. You'll need to change titles and beneficiary designations, and be sure that you are giving the trust control by funding your living trust through asset transfers.

**Make sure the named trustee in your will is willing and able to serve.**

When deciding on a named trustee, consider if a family member or a corporate trustee is the best choice for your situation. Your trustee will have a lot of responsibilities to handle in regards to your assets, so you'll want to be sure it's left in the hands of someone who is ready and able to make the time to fulfill these duties.

**If you have a taxable estate, make sure an attorney has reviewed your trust and taken advantage of the opportunity to double the amount exempt from this tax through the credit shelter or A/B trust provision.**

Credit shelter or A/B trust provisions can help you reduce federal and state taxes, particularly if you're married. For instance, if an estate is worth over $25 million, this provision in a will could save the estate over $2 million of estate tax someday.

**If you have a taxable estate, consider using an irrevocable life insurance trust (ILIT).**

Life insurance trusts give you power over your insurance policies and the money that is disbursed from them. Life insurance trusts can help you to reduce estate taxes and provide liquidity to the next generation.

**If you have a highly appreciated asset and a charitable intent, consider a charitable remainder trust (CRUT).**

A charitable remainder trust can help you reduce taxes. It allows you to donate assets into your trust. The trust then disperses a benefit/income to you and your spouse for the rest of your lives. Once you have both passed away, the remaining trust balance will be donated to a charity of your choice.

**If you have excess investment funds, and want long term care insurance, consider the types that have the potential to return your lifelong premiums even if you don't need long-term care.**

Most insurance policies operate under a "use it or lose it" plan. If you pay car insurance of $1,000 per year for 20 years and never get in an accident, you do not get a refund. A type of long-term care insurance exists that combines with life insurance coverage to potentially provide your estate with a refund exceeding the lifetime cost of your insurance.

**If you receive assets from a deceased person's estate, be sure to understand step-up in basis.**

Step-up in basis can eliminate your federal income taxes when you sell an asset you were left. It does not apply to inherited retirement accounts or annuities. Depending on whether you live in a common law state or a community property law state, the step-up in basis rules are different. Be sure to know which rules apply to you in order to maximize your benefit while minimizing taxes.

**If you are going to be an executor of an estate, make sure you get all of the appropriate information.**

You'll want to be sure that you have a personal property distribution list, copy of the will, computer passwords, life insurance contracts, and safe deposit box information. Being organized will make this job far less overwhelming.

# CHAPTER SIX

## *Lifestyle*

**Once you can afford it, work only at jobs you are gifted in and that you love.**

Life is too short to do anything other than what you're passionate about. Take it from the age-old saying, "If you love what you do, you'll never work a day in your life." This will also help you prioritize your passions and the activities you'd like to become involved in or remain engaged with once you enter retirement.

**If you can afford it, hire other people to do tasks you can't do well or don't want to do.**

Outsourcing tasks that you dread or aren't great at can make you happier while reducing stress and increasing satisfaction. Taking these tasks off your plate can help you earn precious free time that you will be able to devote toward doing things you enjoy.

**If you can make more per hour at your job, hire others for tasks that can be paid less.**

Especially when you're nearing retirement age, your wisdom and expertise are likely at an all-time high in your job. If you're able to work more efficiently and complete tasks that make you more money by outsourcing tasks that you find menial or routine, look for someone to take these tasks over for you. This will also help with your succession plan as some of your daily tasks are moved to someone else.

**If you own a business, start your succession plan now.**

Inevitably, you'll no longer be able to run your business someday, but that doesn't mean the business should end without you. Starting your succession plan early can increase the odds that your business is left in the right hands with your desires, goals, the needs of your clients, the transition of new leadership, and tax implications taken into account. You'll be able to relax and enjoy knowing the hard work you put into building your business years ago is paying off as your company continues to thrive and grow into the future.

**Your wisdom is priceless. Find an opportunity to mentor someone younger.**

Whether it's a younger coworker, a grandchild, or someone from your community, spending time with a younger person can be a great way to utilize your wisdom, feel useful, and have fun. Your mentee will benefit from your time, knowledge, and experiences, and mentorship can be a rewarding way for you to spend some of your free time. Your mentee may even engage in reverse mentorship and offer knowledge in areas that you wish you knew more about.

**Don't "check out" of society in retirement.**

Retirement is a time to relax, but relaxing shouldn't mean that you stop everything. A body in motion stays in motion. Use this time to increase your involvement in your community and the lives of others, or simply do what you love. This can allow you to meet and make more friends, discover hobbies that you never knew you'd enjoy, and keep you engaged, active, and busy.

**Before you move to a cheaper or warmer part of the country, make sure you aren't leaving irreplaceable friends or community ties that you may regret later.**

The grass always appears greener on the other side. While warmer weather and cheaper living expenses may appear to be ideal, the importance of having friends and loved ones close by can play a big part in your happiness in retirement and later in life.

**If you love where you live, don't feel like you have to downsize.**

Some people in retirement downsize for reasons like "everyone else is doing it," the house is too big to clean, or the yard is too much to take care of. A simple fix is to close a door to unused rooms, hire a house cleaner, or hire someone to manage your lawn. You may not want to leave your home if it means substantial selling expenses, higher utilities in a new home, or being farther away from family and friends.

**Don't buy a vacation home unless you will only want to vacation in one place.**

You may want to consider vacation rentals or simply staying in hotels when you vacation instead of buying an entire vacation home. While some people love one location and would like the freedom to go there whenever they'd like, really think about your personal goals and dreams. You may want more flexibility to go wherever you want without feeling held back by your expensive vacation home.

**Consider renting an RV or the alternative of staying in a hotel before buying one.**

There may be high costs involved with owning and operating an RV. You should try renting one before you buy to assess if this is something you are even comfortable with for an extended period of time. You may come to find that hotels could be an easier and less expensive option.

**If your retirement schedule is flexible, learn how to take advantage of last minute trips or cruises at huge discounts.**

There are many travel vendors like airlines, hotels, and attractions that offer incentives to seniors. You may be able to make priceless memories and you'll be happy you enjoyed a few extra adventures by taking

advantage of some of the deals that are available for you. However, be cautious as vacation scams do happen.

Do your research and consult someone who is in the know before handing over any valuable information.

**Maintaining an active lifestyle can be essential to your health in retirement.**

Exercise is extremely important at any age, but as you get older it becomes even more crucial. You could save a lot of money on healthcare by keeping an active lifestyle and maintaining strong bones. The more you can focus on that healthy lifestyle, the better. Even if you have to start slow, any activity is better than none. Consult your doctor before starting a physical activity regimen.

**Don't put off doing things you want to for a later date in retirement.**

Life is full of surprises. If your passion is traveling or you have something that you've always wanted to do—don't delay it! You could have a long term care event or a sickness in your family that doesn't allow you to do all that you wanted to. Be sure that you're taking care of your personal goals and dreams in retirement before it's too late.

**If possible, try to help your children become financially independent and responsible before entering retirement.**

While you always try to support and care for your children, you may be doing them a disservice by bailing them out, especially if it's a recurring issue. In retirement, you will likely earn less income than your child will if he/she continues to work. If you are providing financial assistance to your children, be sure that you're not putting your own retirement plan at risk. You may also want to avoid helping your children take on expenses that they will be unable to afford when you're gone. For instance, some children ask their parents for help to buy a more expensive home. Be sure that this is actually a home that they can afford for the long haul before helping out.

**Resist the urge to not spend money in order to leave more behind for heirs.**

It is possible to pass on money to your children while still spending enough to enjoy your retirement. Your children would likely rather see you enjoy your retirement than not spend any of your hard-earned savings. A happy medium between saving and spending can make all parties better off.

**Try not to let retirement put stress on your marriage.**

While most couples can't wait for retirement to be able to relax and spend quality time with their spouse, retirement can bring on unanticipated stressors to a relationship. The uncertainties that may not have been planned for and an inconsistency in beliefs can cause fights that could have been avoided. Have conversations about expectations beforehand and create an adaptable plan for retirement. Be sure that you maintain a social network and dedicate time to doing what makes you both happy. Having a plan and open communication before and during retirement can help you both be on the same page.

**Don't be penny wise and pound foolish, life is too short.**

Don't spend too much of your time clipping coupons to save money you don't really need to save. You've worked hard for the majority of your life, so don't sweat the small stuff. If you've been diligent in your planning and preparation, you shouldn't have to be worried about tiny savings here and there.

**Keep calm and retire on!**

Enjoy retirement! You've worked the majority of your life, and deserve to have many blissful years ahead.  Spend time with family and the people you love doing the things you love to do. With a proper plan and execution strategy in place, you should be on track to accomplish all of your retirement goals and dreams.

# About Dave Lopez

Dave Lopez is the founder of ILG Financial, LLC. Dave has been working with individuals and businesses in the Northern Virginia area since 1986. Dave specializes in strategies that enable his clients to potentially build a retirement nest egg that they can rely on and can never outlive.

Dave has his Bachelors of Science degree from James Madison University with a major in Mathematics and Computer Science. Dave is an Investment Advisor Representative with AlphaStar Capital Management.

In addition, Dave is a licensed Life, Health, and Annuity Agent. In partnership with Financial Independence Group, Dave has access to an extensive team of experts to assist in building the best plan for each client utilizing the appropriate combination of Market Investments/Life Insurance/Annuity/Long Term Care Insurance/ and Disability Insurance options. Through The Financial Independence Group Dave brings extensive resources and experience allowing them to match the best possible plans to their clients' needs.



**The Little Red Book of Retirement**

**The Basics Of Retirement Investing**