Retirement . . .
The Road Ahead

Premiere Strategies
to Get You There and Keep You There

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Ask
Better Questions

Get
Better Answers

Live a
Better Retirement!

IMPORTANT INFORMATION - PLEASE READ

The educational materials contained in this book are being presented solely as general information. Accordingly, these materials should not be interpreted as constituting any form of investment advice or recommendation, nor should they be viewed or relied upon as legal or tax advice. Should you desire to obtain investment advice, please contact a qualified investment professional. For legal or tax advice, you should seek the assistance of your attorney or tax professional.

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Introduction

An "Ideal Retirement Life"

If I told you I have been thinking about my retirement since I was ten years old, you might laugh. No, that is not the age I decided to become a retirement-focused financial advisor, but it is ironic, looking back.

I grew up with four other brothers (there were five of us boys total) in Northern California. Needless to say, Mom had her hands full! My dad was a hard-working teacher and would take us on vacations to the Los Angeles area to visit our grandparents and cousins when he had a summer or winter break from teaching.

We would load into the car and drive all night until we arrived at our grandparents' house in the morning. Grandma would always have a delicious meal waiting for us, and as soon as we finished eating, she would ask us, "Where do you boys want to go today?"

During our visits, my grandparents would take us anywhere we wanted. We would go to Disneyland, various beaches, ice cream parlors, restaurants—you name it! Like most grandparents, they lived for the times they could spoil us rotten! We lived like kings during these trips. After the usual week or two enjoying the “good life” with Grandma and Grandpa, we would pile back into our old workhorse station wagon and head back . . . to reality.

At home, life would be . . . well, let’s just say “hum drum” again. It seemed like we weren’t allowed to do anything fun! Nothing fun that cost money, at least. No more trips to the beach or amusement parks, and no more getting “our way” on everything we wanted.

One memorable evening, my mom asked me what I wanted for dinner. I suggested we go out to eat, since “Grandma and Grandpa always take us!” She explained to me, “Jeffrey, we don’t have enough money to go out to eat. It costs a lot of money, and it’s cheaper to just make dinner here at home!”

I was a bit bewildered. She explained, “Dad works really hard for us, but he doesn’t make a lot of money. And we need to be careful with our money!”

I thought for a moment and asked, “So, what do Grandma and Grandpa do?” My mom asked, “What do you mean?” I said, “For work, what do they do for work?” Mom replied, “Oh, honey, they are retired!” I looked at her with all the seriousness of a ten-year-old boy and declared, “Well then, when I grow up, I am going to be . . . *retired*!”

Of course, over the next several years, my wonderful parents taught me that “retired” is not a career choice. I needed to develop a skill set, work hard, learn how to give an honest day’s work, and get a hard-earned paycheck—part of which I could save so I could live an ideal retirement life like my grandparents seemed to have mastered. Now, as I grew older, I eventually realized that being "retired" was the result of hard work, saving money, and planning for the future. I also learned many people fail to plan for their retirements.

Some people never have a solid vision of what retirement should be, which causes all sorts of problems once they are too old to continue working or become ill. They are putting a puzzle together without a final picture, like the picture on the puzzle box, to reference. Do you see where I am going with this?

Often, people do have a retirement plan, but unforeseen events occur that catch them by surprise. I mentioned earlier that my dad was a teacher. As you can imagine, we were not particularly wealthy, but we always seemed to have what we needed. As a public teacher, he would be eligible to retire with a full pension at age sixty, once he had completed thirty years of employment. My parents' retirement plan was to have my dad work hard for thirty years, and then they would both be able to live on his pension, once the financial burden of feeding five hungry boys was lifted.

One morning when I was in college (no longer pursuing "being retired" as a career option), I got a call that left me stunned and worried. My forty-five-year-old mom told me that my dad, at fifty-six, had suffered a stroke and was in the hospital.

Doctors discovered he had a cancerous tumor in his brain. He died a few short years later at age fifty-nine. He was unable to work the full thirty years needed to qualify for his pension, which meant that my mom no longer had the income she had counted on. My parents' retirement plan had been utterly destroyed.

I learned that, although they had planned for the future, they had not planned for this particular worst-case scenario. My mom had to go back to work since she would not be getting his pension, was still too young to qualify for Social Security, and would receive no life insurance payout.

Now, I do not plan to fill this book with sad stories, but I will say it is much better to learn from someone else's mistakes than your own. Please *learn* from this story and others like it! Plan for as many sunny days as possible, but remember that you may need an umbrella because someday it *will* rain.

These events and others, despite their accompanying heartache, have helped me get to where I am today. I am extremely passionate about what I do because I hope to help people *not* be in the same position as my own parents were, as well as so many people who find themselves in what seem like hopeless financial situations.

As the old saying goes, "an ounce of prevention is worth a pound (or more) of cure." Make your retirement plan an action plan, not a reaction plan.

Questions to Consider

• *Do I have a retirement plan?*

• *When is the last time I looked at it?*

• *Do I have all my bases covered?*

- *Am I prepared for unexpected illness or death?*
- *What will happen when my spouse or I can no longer work?*
- *How much money will I need to get by in retirement?*

Notes/Questions?

Chapter 1

Are You Ready?

Whether you have been thinking about retirement for many years or have just recently started to contemplate that phase of life, or even if you have yet to even consider your ideal retirement life, I hope this book will be of great value to you. It may not give you all the answers you are looking for in cut-and-dry terms, but it should open your eyes to important concepts that will help you focus on those things that make sense for your current situation and your future retirement goals, and correlate with your most deeply held values.

Please don't misconstrue anything I say here or in this book as a recommendation. If I don't know you and your situation personally, and as a fiduciary, I can't give you specific or personal advice at this stage. What I can do is give you a fairly concise overview of topics to consider when planning for financial security in retirement and making the most of your ideal retirement vision.

As we try to get answers to life's most important questions, it is always better to know the best questions to ask. In my opinion, the best way to get better answers is to *ask better questions*. This book will hopefully give you those better questions so you can get the answers that will maximize your potential for retirement success.

The bottom line is that I hope to open your mind to think more comprehensively about your retirement life, come up with a lot of what-ifs, and consider a variety of scenarios. Try to think outside the box! Don't let paradigms or others' opinions get in the way. As you read this book, keep a notepad handy and take time to think about as many questions as you can, not answers.

Once you have a comprehensive list of questions, you will know where to start in doing the work to come up with the answers by yourself, with your spouse or family, and hopefully with the value of experienced specialists and advisors.

After you know what is missing, it's time to start making some plans, design your retirement roadmap, live your ideal retirement life to its fullest potential, and start checking off items on your bucket list.

Many people I meet have been planning for many years, and others have never planned until they came in for an appointment. Don't get me wrong—it is better to start planning late than never! In fact, there is never a "bad" time to plan, but there are certainly better ones.

One of my favorite quotes is the old saying, "90 percent of success is just showing up." It makes sense, doesn't it? The fact that you are reading this book is a good indication that you are off to a great start! You showed up! Congratulations!

You're on your own this time. Write down any questions that came to mind during your reading of this chapter.

Notes/Questions?

How About A Few Bucket-List Items?

Chapter 2

The Retirement Puzzle

If you are like me, and you like puzzles, you probably keep the box with the picture of the completed puzzle close at hand whenever you try to complete one. Can you imagine putting a 500- or 1000-piece jigsaw puzzle together without a picture of what you want the final product to look like? Imagine staring at all those pieces in the box and wondering how they all fit together. Where would you even start?

How does this relate to a smart financial plan? Well, there might not be 1,000 pieces of your retirement puzzle, but based on my experience, there are more than just a few! Without a clear vision of the retirement picture and understanding the ways the pieces of the "puzzle" fit together, one would be merely "winging it" and leaving their retirement financial future to chance. When it comes to planning, I don't like taking chances; I like clarity and high probability of success. A few guarantees are a good thing, too.

In my profession, I often meet people who are thinking about their retirement and trying to get their ducks in a row, so to speak. They come in for what we call a "Retirement Readiness Review," where they want to talk to me about their pensions and Social Security, their IRA or 401(k) accounts, some investments or their real estate and maybe some other assets. In reality, they have no clue what these things really mean or how they will best serve them in their retirement years.

Essentially, they have some of the pieces of a big puzzle, but they have not figured out how to put the pieces together in order to make any sense of it. Usually, that's exactly why they are coming to see me. To be clear, at this point in the meeting, I don't have a clue what all that means, either. No one has seen the picture on the puzzle box yet!

In our process of **E**xc**E**ll**E**nt Planning, we focus on all three "**E**"s:

ENVISION: Look forward to the future.

EVALUATE: Where you are vs. where you need to be financially. Identify any gaps.

EXECUTE: Start building the puzzle.

We need to start with the big picture first. Yes, the puzzle box cover. **Envision** your future. What does your ideal retirement life look like? Write it down, draw pictures, and take notes. Do you have a bucket list? Have you started one, at least? In addition to food, housing, and utilities, there are a variety of ways you can spend your money. Have you considered your budget?

Do you have an idea of how you want to spend your days, weeks, months, and years? Traveling the world? Developing a new hobby? Golfing every day? Visiting and spoiling your grandchildren? Giving back by volunteering or mentoring others? Downsizing your home or traveling the country in an RV for a few years? When you have created your list of activities, perhaps you will be better able to create or modify a budget, including the extras you envision in your retirement.

More questions:

- How long will you live?
- How long will you be able to do the activities just mentioned?
- In other words, how long will you need to rely on your investments for retirement income, and how much will these things cost in the future?
- Have you considered inflation adjustments?

These are all questions that point to big decisions since your retirement life could be as long as your working life. Retirement is not the “end game” as many people believe. We are living longer. Retirement is actually more like a “half-time” event for many retirees today.

So, what does the second half look like? There is no right or wrong answer; your ideal retirement is *your* ideal retirement, and no one else's. But one thing is common in all scenarios: All these things add up to a cash flow plan. Putting that in perspective means that cash flow is a very important section of the puzzle, not just one piece. How does it look now that the paychecks from work need to be replaced by income from Social Security, pensions, savings, and investments? That's when it's time to start the **EVALUATION** process. Where are the gaps? Potential shortfalls? Contingency plans?

It still amazes me how often I meet people for the first time, and they present what they believe is a retirement plan when it is, in fact, just a list of products they own. This is not really planning at all! They have a box full of puzzle pieces thrown together without a picture of how they all should go. In fact, some have pieces of plans from several different places, whether it be an estate plan from a lawyer, some tax-advantaged investments from a tax guy (or lady), an insurance policy or two from a couple of different agents, a 401(k) from work, an IRA they started years ago and almost forgot about, and maybe a couple of brokerage accounts.

That may not be so bad, except more often than not, these various advisors or professionals have never spoken to one another and have never coordinated their advice with an overall plan. Often, there's no efficient or meaningful way to put the pieces together. Unfortunately, I believe this is how most Americans do it these days.

As this ever-so-popular "planning method" became more and more apparent to me as an independent financial advisor, I knew I needed to do something about it. That's why I started my own firm, to help people see the entire, beautiful, complete "picture on the box" before starting to try and shove random pieces together. Seeing the big picture not only lets you know where the pieces need to go, but which pieces you need to build it in the first place.

Ultimately, my goal is to help people **EXECUTE** the process of fitting each piece of their "puzzle" the way it is meant to fit: *together*! The end result is always based on the client's individual goals and personal values.

We call that "smart," comprehensive, and **E**xc**E**ll**E**nt retirement planning and wealth management.

Chapter 3

Your Ideal Retirement

There is no right or wrong description of an ideal retirement. We all have different hopes, dreams, interests, and values. For some, an ideal retirement would be traveling, playing golf, or going out with friends. For others, an ideal retirement might be sitting at home and knowing they don't have to do a dang thing all day! The most important thing is that you make it your own.

Remember how I said we need to *see* the final picture to build a puzzle? Let's do a mental activity. Take a few minutes to imagine how you want to spend your last years on this earth. What is it that gives *you* purpose and fulfillment? I want you to think long and hard about this. Take notes, draw a picture; whatever helps you really create the vision of your IDEAL RETIREMENT. If you haven't done so already, start your bucket list!

Take a Break! Why Not Do It Right Now?

<u>My IDEAL RETIREMENT Looks Like . . .</u>

Okay, back from meditation? Good, let's continue.

Retirement isn't just the final chapter in your life. It can also be a new beginning! Retirement life is not just the endgame where we sit around and wait to kick the bucket. For most, retirement will actually last many years. As I mentioned before, the point at which you plan your retirement might even just be half-time!

My point is, there's a lot to enjoy and experience once work is done with. You can make life as meaningful, or as un-meaningful, as you choose. As I said, there is no right or wrong way to plan your future. It is completely *yours*.

We would probably all agree that those who end up achieving their *ideal* retirement probably made some "smart" decisions along the way. Unfortunately, many people, however, don't live their IDEAL retirement life. So, what about them? For those who don't or didn't reach their goals, do you think they perhaps made some stupid decisions? Maybe, such as not planning at all, or making a bad investment. Yes, those are *not* smart decisions, but that's not always the cause of retirement failure! Let's consider a few more:

Advice From the Wrong People

Most people tend to follow basic or generic advice that they hear or read and copy what they see others in their peer group doing. What is good for one person or situation is not necessarily good for the next. Too often, we copy or try to emulate others. I think Warren Buffet has done an amazing job as an investor. We all want his advice, but very few people who have ever lived on this planet can actually do what he does or accomplish what he has. Perhaps successful people who are more like us with similar goals, skill sets, net worth, and congruent values would make better role models.

Comfort Zone

One of the biggest differences between living a decent retirement from an IDEAL retirement comes down to the Comfort Zone. When we are doing okay, we often do not strive for more. There is a book that I really like by Jim Collins titled *Good to Great*. It talks about various corporations that have gone from being mediocre to being giants of their industries. Often, companies that are "good" don't want to rock the boat. They live by the motto, "if it isn't broken, why fix it?" Companies like Kodak learned the hard way that considering making changes and getting out of their comfort zone to evolve and be better was necessary to merely survive, not just to keep being "good."

Retirement planning is the same way. How your father and grandfather did it probably won't work for us today. Times change, and we need to change, as well. The same strategies that got you there may not be the same ones you need to get you all the way through retirement. You may need to get out of your comfort zone and consider new ideas, strategies, and products. Always keep an open mind and never believe "good" will be "good" in the long term.

Another key takeaway from reading that book for me is that if you continue to do what you have always done, the best you can do is get what you have always gotten. Or, maybe worse if you are not flexible and able to adjust to present times. Remember Kodak? If you don't make changes and you decide to keep on doing what you're doing while expecting to get a different result . . . that is that definition of insanity!

You must be willing to try new things if you want to get to a different and better place. It may require a paradigm shift and deviating from the norm. For example, a retirement plan might consist of just stocks, bonds, and cash. That's the most typical plan I see when consulting with new clients. That's great if you are young and saving for retirement for the next thirty or forty years. If that is all you know, or that is all that's offered by your 401(k) plan or an advisor, you won't ever know what else is out there!

You Don't Know What You Don't Know

My goal is to help educate people about ALL the options. Unfortunately, too many financial companies seem to be good at only one type of product or strategy, like mutual funds or insurance products or an array of alternative investments. This variety of products exists for a reason. They all serve different purposes. In the spirit of true diversification, different asset classes and planning strategies fit together properly will create true diversification and more peace of mind for the typical retiree I meet than just having twelve different mutual funds in a brokerage account. There are a lot of options out there, and people seem to know that—all too often, I hear "I know that already." Yet, knowing there are a lot of options doesn't equate to knowing which is right for you.

I'm in the financial industry, and I will be the last person to think or say I know about all of the investment strategies and alternatives out there. I know a lot, but there's so much to learn. Don't stifle yourself by being content and comfortable with what you know. After all, you don't know what you don't know . . . until someone points it out to you! Hopefully, you will note a few new things in this book and will develop an attitude of constantly improving your situation by having an open mind and allowing yourself to be educated.

Notes/Questions?

Chapter 4

Find a "Sherpa"

Do you know how much preparation goes into climbing Mount Everest? People train for *years* before attempting this 29,000-foot climb. It is no easy feat! As you probably know, many have lost their lives on the quest to complete this iconic climb.

Currently, about four people continue to die every year, despite all the training and preparation that takes place beforehand. The danger is from the harsh cold, hazardous drops, slippery ice, and the last 3,000 feet of the climb collectively is referred to as the Death Zone. Scary name, huh? The Death Zone is incredibly dangerous because the high altitude makes the oxygen in the air so thin that your body can no longer generate new cells, not to mention hypoxia! This causes a lack of focus, bad judgment, and increased mistakes, even for experienced and able-bodied mountaineers.

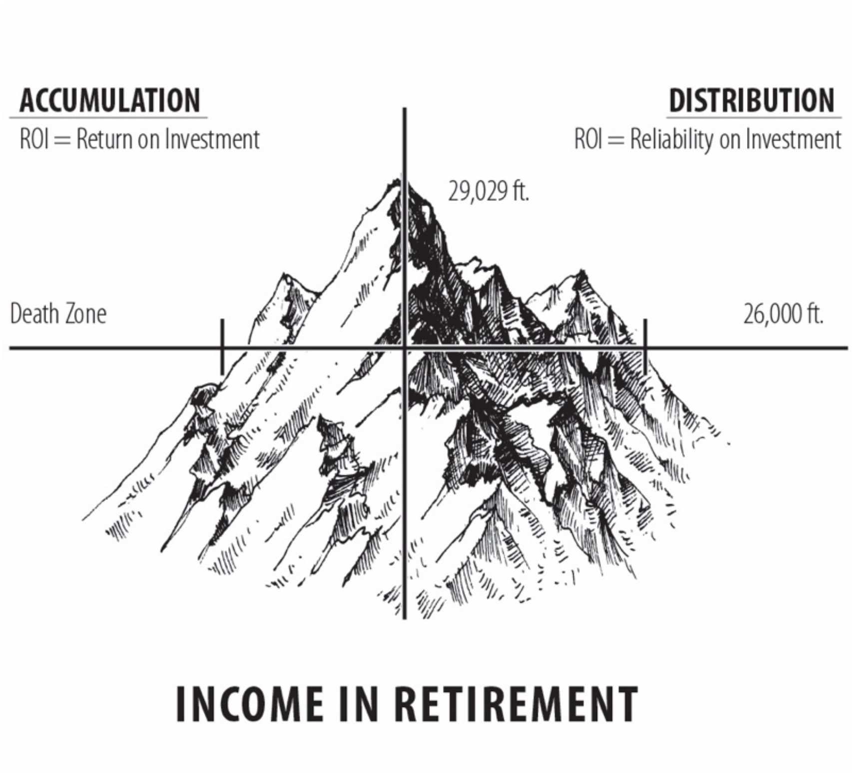
One of these climbers told me a few years ago a most astounding statistic: that four out of five people who die on Everest die on the way down, *not* on the way up. The reason? He told me it's their skillset. I asked him to explain. All those years of training most climbers go through seem to be focused on reaching the end goal—climbing to the top!

Sadly, many people fail to focus their training on preparing for the hazardous climb back down. It takes a different set of skills. You are tired; you need to be more careful. You even use different muscles.

If you climb up a few flights of stairs, for example, versus when you walk down a flight of stairs, you probably notice that different areas of your legs get tired and sore. Going up and going down are completely different! That is why it is important to not only prepare to reach the top but to also learn how to get off the mountain!

Think of retirement as your proverbial Mount Everest. People make a plan, work hard, and save enough money for decades so they can one day retire. When that day finally comes along, it is a life accomplishment they have earned from tremendous effort and incredible patience.

Hooray! You no longer have to work! *You made it! It's all downhill from here, right?*



Not quite! The downhill portion of your ideal retirement life might be the most difficult and dangerous, especially if you aren't prepared and if you fail to acknowledge the new risks associated with it, many of which you have never had to consider. Until *now*!

Retirement is supposed to last the *rest of your life*. Getting there is the first half of the journey, and the journey is not over yet. In fact, quitting your job and starting your retirement is just the beginning! Saving enough money to retire was the easy part. Now, you have to navigate the *entire* rest of your life without running out of money.

Remember how we said you can't generate new cells in the Death Zone? Similarly, once you are retired, you are typically no longer earning a paycheck. And, you may not be able to earn back dollars lost. You need to be more careful than ever before. One slip and fall, one bad market crash, and you could end up living with your kids, or who knows what?

Keep in mind, very few climbers have scaled Everest alone! Practically all who journey there use the help of mountain guides known as Sherpas. Sherpas know the climb like the backs of their hands and routinely save adventurers from danger. Adding to this analogy, the most successful retirees I have encountered over the last thirty-plus years *all* use the help of financial "Sherpas." It is a lot safer going both up *and* down the mountain, or navigating retirement, with the help of someone who has helped countless others do the same!

As a business owner, my company's goal is to help align clients' financial choices according to *their* values—not *my* values! If it's important to them, it's important to me. However, I will say that if someone's values *substantially* differ from mine, then I would suggest they work with someone else. Life is too short to work with people you don't agree with!

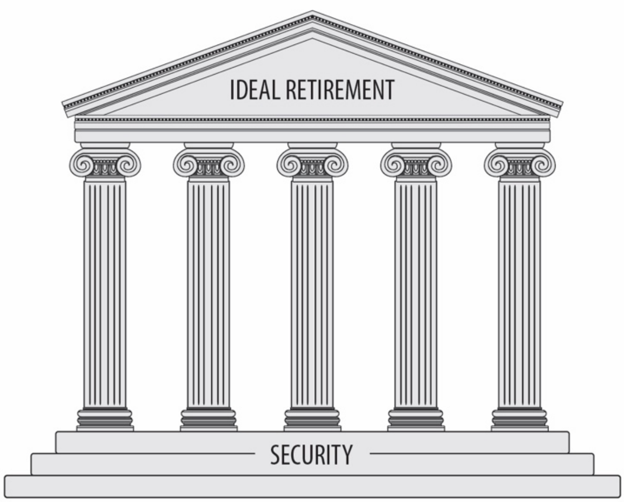
Perhaps you are even reading this book because you are looking to find an advisor who meshes more with your goals and values. My biggest piece of advice: Work with someone who is on the same page as you. This means the advisor should know you. They need to know what's most important to you, and you should also know their most closely held values!

I'm not saying my values should be the same as every advisor's values, but I'll use myself as an example, at least. My goal has always been to empower retirees to retire with peace of mind, and not outlive their money! Period. Safety first, risk (responsibly) second. I think a retiree should be more interested in *never* becoming poor more than continuing to take a *chance* on getting rich. If you happen to be in a position to grow wealth as well as protect needed income with guarantees, then that's great. We can all strive for that too, but let's secure what is needed first.

Notes/Questions?

Chapter 5

Pillars of Comprehensive Planning



I use a lot of pillars in my company's designs and imagery. As a *comprehensive* financial firm, we often refer to what we call the 5 Pillars of Premiere Planning:

- Wealth Protection
- Income Maximization
- Tax Planning

- Health and Long-Term Care Protection
- Legacy Planning

Pillar I: Wealth Protection

You have worked hard to save money and to have what you have. Retirement is not the time to risk losing what you have worked a lifetime to acquire. This includes those who have saved modest amounts as well as those who have amassed significant wealth. We believe in risk management: using every method available to help you keep what is yours and incorporate investments that are principal-protected and guaranteed. Yes, they exist, and I will go into more detail later!

Pillar II: Income Planning

Without a guaranteed paycheck from a job, you will likely need to rely on lower-paying pensions and Social Security. Once you maximize your income from these sources, you will likely need to supplement with income from savings and other investments. How long will your accounts last? Well, that will be a function of how much you need to spend, as well as how the markets do and the returns of the given investment vehicles you use. Less volatile investments will generally last longer while taking regular income than more risky ones like stocks and aggressive mutual funds. We will look at vehicles that guarantee lifetime income no matter how the markets perform.

Pillar III: Tax Management

To be clear, taxes are a form of wealth transfer. Do you believe that paying more than your fair share of taxes makes you a better or more patriotic American? I don't. Many people pay *more* than their fair share of taxes because they do not know about certain strategies available. I love this quote by Judge Learned Hand:

"In America, there are two tax systems: one for the informed and one for the uninformed. Both are legal."

Paying less in taxes and keeping more in your pocket makes you less susceptible to need those costly government programs that end up being paid for by all of us. I want my clients to be self-sufficient, and frankly, I believe most people I know spend money more wisely than our necessary-but-inefficient government. We focus on this more than almost any other firm I have come across. A dollar saved is a dollar earned. Tax savings through good planning are often the biggest return on investment I can help clients achieve!

Pillar IV: Health and Long-Term Care

While Medicare insurance covers most of a retiree's medical needs, almost all long-term care costs are not covered. Averaging $6,000 to $8,000 per month in the U.S., you can imagine long-term care is a pretty good way to burn through even a substantial estate. By the way, those costs are based on the low end of the scale and include nursing homes, assisted living facilities, and in-home care.

We strive to ensure that every retirement plan includes provisions and contingencies in case of injury or sickness. It may be through a typical pay-as-you-go long-term care insurance policy but, more often, it can be done in concert with other investment and even tax planning.

Pillar V: Legacy Planning

Legacy planning spans beyond whether you have a will or a trust to pass your estate to loved ones. It is based on your values and is a statement of the mark you want to leave on the world after you are gone. It may be family-oriented, or maybe your desired legacy is to make a difference through your church or a favorite charity.

Maybe part of your plan is to spend every last dime. Whatever the case, just like your ideal retirement life, your legacy is specific to you. There is not one right or wrong answer, but it is the fifth and final “pillar,” or section of the puzzle.

We will delve deeper into each of these pillars throughout the following chapters.

Notes/Questions?

Chapter 6

Pillar I: Wealth Protection

Don't Be the "Norm"

"It's Your Money . . . Keep it That Way!" has been my motto, tagline, and "golden rule" since I started my business. Can you imagine the pain and disappointment of working and saving for *years*, excitedly waiting for your retirement to finally come, only to end up *losing it all*? Or almost all of it? Maybe you even know someone who had this happen to them? Or, perhaps, you might think that sounds a little bit exaggerated.

I assure you, the risk of losing *everything* is utterly real. Let's not forget Enron, WorldCom, Global Crossing, and other "no-lose" investments, to name just a few that have caused plenty of financial ruin. I remember seeing a great quote by a legend in the financial industry, Lou Dobbs.

"I truly believe <u>you should NOT have money in the market that you cannot afford to lose. Period</u>." ~ **Lou Dobbs, AARP Magazine 2002**

Having too much risk in the market, paired with overconfidence, has been the death of many IDEAL retirement plans, besides simply never having enough to live on to begin with! Most people don't even know exactly how much money they need to retire. Do you? How much money do *you* need? If you are going to hike Mount Everest, you better be prepared! You need to know how far you will climb and how to get down off the mountain intact.

Let me tell you the story of a man I met several years ago. Let's call him "Norm." Norm was an electrical engineer back in the nineties and was making a killing working for a computer chip company during the dot-com boom. He was bringing home more than $100,000 a year and living a very comfortable lifestyle. He and his wife were able to buy a nice home, nice cars, and felt like years of hard work and dedication were finally starting to pay off.

Because of the economic boom, stocks were going up for the tech industry, and he managed to increase his 401(k) to $1,000,000 by 1999. At fifty-nine years old, and with Y2k on the horizon, Norm decided that it would be a great idea to retire early as a birthday gift to himself on his sixtieth birthday. He was optimistic that his $1,000,000 would continue to grow, and he would be able to live off the returns he would make from the thriving stock market. He even asked his financial advisor (who only sold stocks and bonds) if his plan was feasible. In Norm's own words to me, his advisor assured him that because "the stock market historically averages over 10 percent per year, he would be fine."

The advisor took the stance that the new market we were in was unprecedented and would likely continue to beat historical averages for years to come. We were in a new age, and the dot-com era was here to stay. "Just stay with your plan, Norm. You don't have to worry." The advisor emphasized that Norm should expect to earn at least 10 percent on his nest egg every year from his investments, continue to live his $100,000-plus a year lifestyle, "and never run out of money." With all the new innovations with the internet and other technology, it seemed there was no end in sight to the gains he saw in his stock portfolio.

Norm happily took the advice of his trusted advisor and decided to retire at sixty years old as we ushered in the start of a new century: Y2K, the year 2000. Nothing to worry about! Right?

Well, we all know what happened in 2000, 2001, and 2002 don't we? The stock market *crashed*! Both the S&P 500 and the Dow-Jones Industrial Average dropped approximately 50 percent over those three years. The NASDAQ, where most of Norm's money was, was hit even harder. These stocks that were once called "dot-coms" were now being referred to as "dot-bombs!" The NASDAQ ended up going down a whopping 83 percent from top to bottom! All the while, Norm and his wife needed to use their investment accounts to live on. Advice from the advisor? He said, "Hang in there, Norm. The market will always come back. You'll be okay."

Norm had already quit his job. With the new recession, and the NASDAQ tanking, there was no way anyone was going to hire him back—especially considering his past salary, and that he was now past sixty years old. So, Norm was out of a job, still had a mortgage and cars to pay off, and was living an expensive lifestyle. As his funds diminished, he and his wife curbed spending as much as they could. Still, they were forced to take Social Security early, which meant they would take home less for the rest of their lives.

The struggling economy and his high spend down rate caused his $1,000,000 to shrink down to around $250,000. At this point, he was trying to live off around $40,000 from investments and part-time jobs. His small Social Security checks were not enough to cover his wife's and his needs. Fortunately for them, his $250,000 slowly began to grow again as the market rebounded the next few years. He was recovering slowly but starting to feel optimistic again!

Then 2008 rolled around . . . He related that his account had grown again up to around $400,000, but the new recession hit him again. Once again, he was pulling money out to live on as his stocks plummeted. His account was slashed back down to around $250,000 by 2009.

It was around this time that I met Norm and heard the details of this story.

I had just hosted a lunch seminar at a Country Club in Norm's hometown of Mesa, Arizona. I finished my presentation, and my guests and I were all enjoying our gourmet burgers. Norm approached me and complimented me on the presentation, which he had heard from the back room where he had been helping with some maintenance items at the clubhouse. He said he was intrigued by my presentation and thought that if anyone might be able to help him, that it would be me. Quite the compliment!

Norm was not an attendee. He had been working there doing odd jobs while his wife made and served sandwiches in the cafeteria to make ends meet. *Not* an IDEAL retirement! At around seventy years old, they were both working again, with no end in sight.

When Norm came into my office, he told me all about what he had gone through in the previous decade or so. He was hopeful that I would be able to help him invest more aggressively in the market in order to get back what he once had. Well, I hate to break it to you, but I am not *that* kind of advisor. I don't dabble in high-risk investing.

Norm had failed to plan for risk in the market and had faced some extremely heavy consequences. After reviewing his financials and considering his situation, I frankly told him that there was not much I could do for him. This might sound harsh, but due to how things were going, I did not want to be the one on his watch when the last of his money dried up. He thanked me for my time and gave me permission to share his story. In his words: "If it helps anyone else to not make the same mistakes that I did, then go for it!"

The moral of this story? It's okay to *not* follow the Norm!

Unfortunately, this is not a one-in-a-million scenario. In fact, stories similar to this happen to people every day. My advice? Don't be one of them!

Questions to consider:

- What mistakes did Norm make?
- What can you do to avoid them?
- How much money do you need to retire?
- How much risk do you have in the stock market?

Notes/Questions?

Chapter 7

"Proactive" Tactical Asset Management

Legendary Warren Buffet states that he has two rules that he lives by: *Rule No. 1: Don't lose money. Rule No. 2: Don't forget Rule No. 1!*

After the crushing stock market results through 2002, Lou Dobbs gave an interview to AARP in their *Modern Maturity Magazine*. He flat out stated, "Don't put money in the stock market you can't afford to lose . . . Period!" Both of these men gave pretty sage advice, in my opinion.

You spend *decades* building a nest egg. My business follows both Warren Buffet's and Lou Dobbs's principles by providing a unique solution when it comes to investing. First, put enough money in principal-protected accounts to guarantee your minimum or desired monthly income for as long as you live, no matter how long it may be. Then, if you want to risk some capital, risk it responsibly.

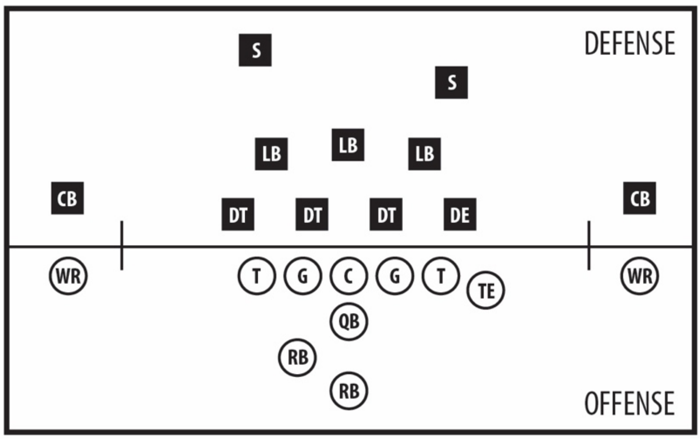
Let me explain. Rather than selling a bunch of stocks and bonds, some boutique firms like ours offer access to several exclusive, actively managed hedge funds. Not all of these are worth investing in. In fact, many should make you run. *Fast*!

Now, many hedge funds, including some we deal with, don't want to deal with anyone unless they have millions and millions of dollars. They don't want to manage people. They just want to manage money.

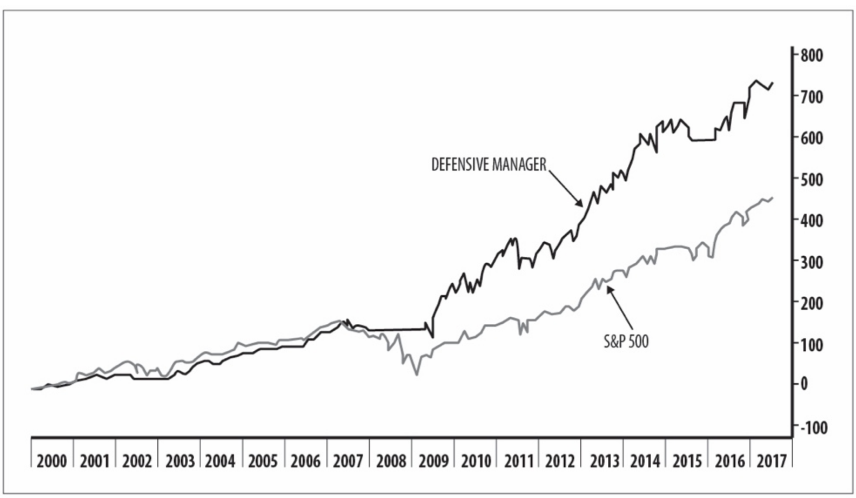
The benefits of actively managed funds like this can outweigh the benefits of putting your money into large mutual funds like the ones most big brokerage firms and other financial advisors use.

Because mutual funds are regulated the way they are, mutual funds can't go to cash or play defense when the market is bad! In other words, a "growth" fund has to stay invested in growth stocks, no matter how badly they may be performing at any given time. The usual mantra when the market gets bad? You know it already. "Hang in there; the market will come back." That may be all true and good for those who have time to wait, but not if you're spending your money from those accounts every month to live on. Volatility can easily deplete your retirement funds in times of recession or market corrections.

Hedge funds, however, can go to cash or change to better-performing asset classes when the market gets ugly. This approach to investing in the stock market is to "win by not losing," or at least minimize those losses when bad times come. You don't need to make a 30 percent return from the stock market if you don't lose 50 percent the next time it goes down! Like a football game, it comes down to playing *both* offense *and* defense!



Let's look at how playing defense works for an unnamed manager who goes defensive a few times every decade. You can see the difference it makes compared to a passive strategy.



One key component to firms like ours, who are licensed Registered Investment Advisors, is that we are fiduciaries. Fiduciaries must work for their clients' best interest, not for any single hedge fund, mutual fund company, or financial firm. This means a fiduciary helps you pick the best in class products and strategies that help you achieve your goals the best. They are not restricted to selling proprietary products, and *must* disclose all financial matters, including conflicts of interests and how the advisor and firm get paid, to their prospective clients.

Fiduciaries do not owe loyalty to anyone other than their clients. They have a legal and ethical duty to put your best interests in front of the interests of themselves or the company they work for.

Fun fact: **Most big financial institutions are *not* fiduciaries!

Notes/Questions?

Chapter 8

Lifetime Income: *Insured, Secured, Principal Protected Accounts*

Generally speaking, independent financial firms can avoid putting all your nest eggs in traditional investments because they generally hold more than just a securities license. They are able to be flexible and supplement plans by offering a complete range of securities as well as secure products, including certificates of deposit (CDs), insurance, and annuities. As we have seen by Norm's example, risk can kill the best of intentions when it comes to income planning. So, we will dwell on "safe and guaranteed" in this chapter.

Since CDs are notoriously famous for paying horribly low interest rates, let's pass on an in-depth discussion on them. What used to be certificates of deposit would more suitably be called "certificates of disappointment" these days!

So, let's go to something most Wall Street firms and traditionally advised investors seem to hate: insurance and annuities. I know, I know, the nasty "A-word."

Annuities are evil, after all, right? First of all, let's remember what an annuity is. It is merely an income stream. Your Social Security may be one of the best annuities you already own. Your pension is also an annuity. But you can allocate some of your investment portfolios to annuity accounts at secure insurance companies for present or future income, essentially creating your own supplemental pension. What's wrong with that? Nothing, in my opinion, but there are some reasons annuities get a bad rap. I will cover a few of them and let you know why I think the right annuities may be the single greatest addition you can make to your retirement plan!

There is a lot of confusion surrounding annuities. There are about as many "flavors" of annuities as there are flavors of ice cream. And there really are some bad "tasting" ones. But some people don't know that there are also a lot of good ones, and some of them, in my opinion, are *great* ones. I will break down the differences for you.

Before diving in, however, I want to point out the following **phases of an annuity:**

First, there's the **premium phase**, when the annuity contract or policy is funded. This can be done in one lump sum, or over a time period like a typical pension or Social Security is funded. Every paycheck allocates a few more dollars to the premium, and the accumulated funds grow at whatever interest is credited during the **deferral phase.**

The **deferral phase** is merely the timeframe between starting to pay premiums and when you decide to take income. In fact, according to the IRS lifetime income tables, an annuity doesn't really need to pay any payments to you until age 115. Since very few people live that long, you could defer an annuity for more than your lifetime if you never needed the money but liked the safety or growth nature of the deferred annuity. Many annuities are left for estate planning and legacy purposes.

The **income phase** is when you decide to get those monthly or periodic paychecks. You can decide on income for a set period of time or a lifetime period.

The last phase could go by several names, but I prefer to call it the **termination phase.** This would happen when the balance of an annuity account is paid to a beneficiary upon death, when the policyholder terminates the contract for its cash value, or when the final periodic installment is paid out and the account has been used up.

Now let's talk about a few basic annuity types.

A **variable annuity** is an insurance contract wrapped around an investment. It's created and made available by insurance companies, but it can only be sold through someone who is registered to sell investment products. With a variable annuity contract, the insurance company invests your money in the stock market through sub-accounts, which are essentially mutual funds. Because it is variable, it can go up and down according to the market. There are no inherent guarantees on the principal account value. To get any guaranteed options on this type of annuity, you must buy riders for each aspect you want to guarantee. When rider fees are added up, they can be pretty costly (I've seen them come in over 5 percent in some cases), and this is likely one of the reasons variable annuities see a much higher number of complaints than all other annuity types combined. Based on my experience, these are the annuities everyone warns you about!

A traditional **fixed annuity** is pretty straightforward. You purchase a contract with a low guaranteed interest rate and, when you are ready, the insurance company will make regular income payments to you at whatever payout rate your contract guarantees. The guaranteed interest rates aren't too high lately, and these types of annuities are losing favor. In some cases, you can decide to take a fixed payment for a given period of years that guarantees at least a return of premium and interest, but sometimes people elect a payout that pays for life without a guarantee of principal return. Those payments will continue for the rest of your life and, depending on the policy you choose, potentially for the remainder of your spouse's life.

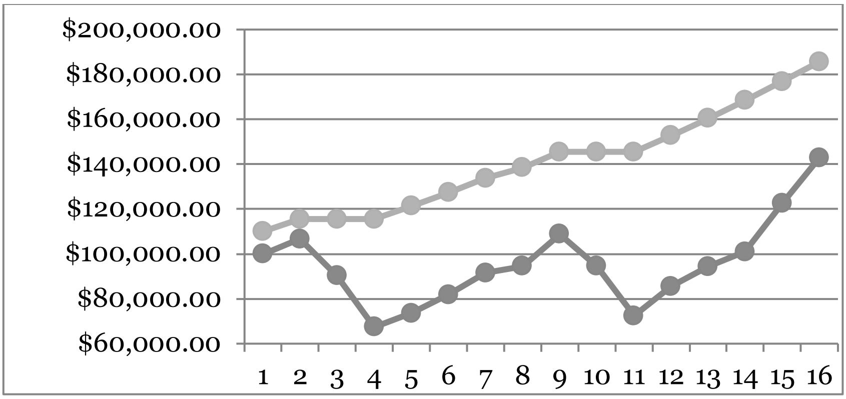
Guaranteed income for life? Not bad! That works out kind of like Social Security and a pension. *But*, if you don't live long enough, you may not get all your money back. Hence another potential reason to give even the fixed annuity a bad rap. So, where do I get that "have my cake and eat it too" version of an annuity?

So far, we have learned that variable annuities take on more risk to offer more possibilities to grow. But remember this is a maybe, or maybe not. The high fees can eat into the performance pretty significantly, particularly in years where the annuity value suffers a loss. Fixed annuities have less potential growth, but they protect your principal. Wouldn't it be nice to have a little bit of both in a hybrid type of product? Well—we have it! It is called the **fixed indexed annuity**, or **FIA**. Maybe this is your "cake and eat it too" answer.

In the last couple of decades, many insurance companies have retooled their product line to offer FIAs, which are a cross between variable and fixed annuities when it comes to that risk/reward spectrum. Fixed indexed annuities offer greater growth potential than traditional fixed annuities and other guaranteed financial instruments, but they may have less upside potential in some time periods than variable annuities or the stock market over long or short terms, particularly in strong bull markets. One thing is certain, however: the FIA margin spreads and/or "fees" are much lower in nearly all the comparisons I have seen than in a variable annuity and, in some cases, than in straight-up mutual funds.

Like traditional fixed annuities, FIAs are protected from downside market losses, but they don't guarantee much in the way of minimum interest rates. They could return 0 percent in a bad market performing year, but at least you don't lose any principal. In other words, they are considered **safe and secure.**

The following graph shows the period between 1999 and 2017. It compares the returns of an FIA with a 10 percent initial bonus and a cap of 5 percent (lighter top line) to the performance of a stock-market correlated portfolio (lower dark line). That means a $100,000 investment starts with an initial value of $110,000 and grows at a rate of interest up to 5 percent if the market has a positive return. The cap means the most you can make is 5 percent, but the floor is 0 percent, even in a negative year.



You will notice that the stock market even had gains of more than 30 percent in a single year but also lost over 30 percent in its worst year. Adding up the good and the bad years, you see the stock market actually underperformed the *no-risk* fixed indexed annuity with an upside potential of only 5 percent. Now, thinking back on Norm's situation, can you see how a safer annuity-based portfolio would have helped him much better in retirement than a portfolio that was correlated to the stock market?

Let's look at the numbers using the following charts to see how an FIA would work in actual dollars over a previous twenty-year period. If it paid only half of the upside of the S&P 500 but had no downside, what would it look like compared to a stock portfolio of blue-chip stocks correlated to the S&P 500 with 0 percent in total fees?

Again, if we use the example of Norm and assume he wanted to put his money in an FIA instead of leaving it all exposed to market risk, we will use his $1,000,000 as if it were his initial balance. Keep in mind, we are using the S&P 500 index, which has been less volatile than the NASDAQ where most of Norm's stocks actually were. Let's say he was able to live on a more reasonable income of $50,000 per year with an inflation factor of 2 percent and see where he would be twenty years later.

Basically, you see Norm spending down the principal at a very high rate during bad markets and not quite holding his own in many of the other years, either. After twenty years, his expenses are around $70,000 per year, and his balance is down to a little over $200,000. That means he is around eighty years old, with only about three years of income staying-power left. Not too bright of a future if you ask me.

Interestingly, his average rate of return on investment (ROI) over the years was 7.16 percent, but he was only pulling out 5 percent of his initial balance with a very slight increase for inflation. We clearly see that market "averages" mean nothing in the face of volatility when we need retirement income.

Second, let's look at the scenario where Norm could have invested more safely by taking on *no risk* to principal and giving up half the upside of the market.

Investment Mirroring the Performance of the S&P 500

Year	Beginning Bal.	Income	S&P % Return	Ending Balance
1999	$ 1,000,000	$ 50,000	21.04%	$ 1,149,880
2000	$ 1,149,880	$ 51,000	-9.1%	$ 998,882
2001	$ 998,882	$ 52,020	-11.89%	$ 834,280
2002	$ 834,280	$ 53,060	-22.1%	$ 608,570
2003	$ 608,570	$ 54,122	28.68%	$ 713,464
2004	$ 713,464	$ 55,204	10.88%	$ 729,879
2005	$ 729,879	$ 56,308	4.91%	$ 706,643
2006	$ 706,643	$ 57,434	15.79%	$ 751,719
2007	$ 751,719	$ 58,583	5.49%	$ 731,189
2008	$ 731,189	$ 59,755	-37%	$ 423,004
2009	$ 423,004	$ 60,950	26.46%	$ 457,854
2010	$ 457,854	$ 62,169	15.06%	$ 455,275
2011	$ 455,275	$ 63,412	2.11%	$ 400,131
2012	$ 400,131	$ 64,680	16.00%	$ 389,123
2013	$ 389,123	$ 65,974	32.39%	$ 427,817
2014	$ 427,817	$ 67,293	13.69%	$ 409,879
2015	$ 409,879	$ 68,639	1.38%	$ 345,949
2016	$ 345,949	$ 70,012	11.96%	$ 308,939
2017	$ 308,939	$ 71,412	21.83%	$ 289,379
2018	$ 289,379	$ 72,841	-4.38%	$ 207,054
		Average Return:	*7.16 %*	

Performance of a Fixed Index Annuity

Year	Beginning Bal.	Income	FIA returns	Ending Balance
1999	$ 1,000,000	$ 50,000	10.52%	$ 1,049,940
2000	$ 1,049,940	$ 51,000	0%	$ 998,940
2001	$ 998,940	$ 52,020	0%	$ 946,920
2002	$ 946,920	$ 53,060	0%	$ 893,860
2003	$ 893,860	$ 54,122	14.34%	$ 960,156
2004	$ 960,156	$ 55,204	5.44%	$ 954,182
2005	$ 954,182	$ 56,308	2.455%	$ 919,916
2006	$ 919,916	$ 57,434	7.895%	$ 930,575
2007	$ 930,575	$ 58,583	2.745%	$ 895,928
2008	$ 895,928	$ 59,755	0%	$ 836,174
2009	$ 836,174	$ 60,950	13.23%	$ 877,786
2010	$ 877,786	$ 62,169	7.53%	$ 877,033
2011	$ 877,033	$ 63,412	1.055%	$ 822,205
2012	$ 822,205	$ 64,680	8.00%	$ 818,127
2013	$ 818,127	$ 65,974	16.195%	$ 873,964
2014	$ 873,964	$ 67,293	6.845%	$ 861,887
2015	$ 861,887	$ 68,639	0.69%	$ 798,721
2016	$ 798,721	$ 70,012	5.98%	$ 772,286
2017	$ 772,286	$ 71,412	10.915%	$ 777,374
2018	$ 777,374	$ 72,841	0%	$ 704,533
		Average Return:	5.69%	

In this scenario, Norm only had an average rate of return of 5.7 percent but still has over $700,000 of assets, giving him at least ten more years of staying power with minimal or no market gains. The moral of this story is, don't let averages get in the way of making smart money decisions. In retirement, **ROI** should mean **reliability of income** more than "return on investment."

Income Riders

Income riders on annuities **are used when a person doesn't want to annuitize for a fixed period of time or potentially lose any principal** due to not living long enough to collect enough payments. The income rider is something usually added for a small fee and gives the client the option of taking a fixed income payment for life even if the account goes to $0.

So, if Norm was worried about his investments not lasting forever, he could lock in a guaranteed annual income for himself and/or for him and his spouse jointly and know that his income would be protected no matter how long he lived.

The "cake and eat it too" benefit on this type of annuity is that the principal of the account is still available should an owner decide they want to use it up for other reasons, and if the annuity continues until death and there is a balance in the account, the heirs still get what is left. This provides a guarantee that no matter what, you will get your money back plus interest gains unless you breach the contract by early surrender.

With that said, it would be good to know that annuities rarely charge the client an upfront commission or load. Instead they usually impose a back-end load type of surrender charge or penalty if you should surrender the entire account before the minimum years in the contract. This could range anywhere from five to fifteen years or more, depending on the contract. Generally, the longer the term, the higher the credited interest rate, and the higher the income payouts will be.

There is, however, almost always some form of penalty-free amount you can take out each year during the contract term or surrender period, like 7-10 percent of your account value. If you plan to defer or use the account over a long period of time, this should not bother you. You should always keep other funds available for liquidity and emergencies. Regardless, I find it rare that any of my clients would want to spend more than 10 percent of their retirement savings in any one year except in an emergency. In cases of long-term care, chronic illness, or terminal illness, many annuities will waive the early termination penalties.

Furthermore, you would not be wise to put *all* your money into an annuity account. It is merely an asset class to divert some of your savings and investments to—a safe money asset class to help guarantee you won't lose principal and to help sustain your lifetime income needs.

There are other annuity categories, sub-categories, and terminologies regarding annuities that we won't go into here, but these are the most common ones being used today. In my professional opinion, FIAs are currently the most useful for lowering risk on retirement income plans *and* generating guaranteed lifetime income streams through annuitization or, even better, with guaranteed lifetime income benefit riders.

Even though it's a *very* rare occasion that an insurance or annuity company goes out of business or defaults on a guarantee, please note that annuity guarantees are always subject to the claims-paying ability of the insuring company. That's why I suggest using "A" rated carriers with a long track record of success.

Notes/Questions?

Chapter 9

Maximizing Social Security

Okay, let's talk about **Social Security,** which, as we discussed, is also considered an annuity. Interesting, huh? Social Security is the most common source of retirement income that exists. Many people seem to have an extremely hard time knowing how to choose the best way to file in order to *maximize* their Social Security payments and total lifetime income when they consider other investments, additional sources of income, and taxes.

There are over 567 ways to file for Social Security, and you will likely only get one shot to get it right. Once you start taking payments, you can't go back, with the exception that you do get one "do-over" within the first twelve months of collecting your first check. Keep in mind, however, that you have to give back everything you collected up until the time you change your mind.

Like we saw in the story about Norm, taking Social Security early can be a mistake you have to suffer from for the rest of your life! But then again, Norm had no choice based on the other decisions and mistakes he made.

An alarming of people assume they can waltz down to the Social Security office and meet with an "expert" who will know how to help them choose the *best* strategy. According to the rules established by the Social Security Administration itself, workers at the Social Security Administration are prohibited from giving any detailed advice! They are only permitted to help you file and answer basic questions. That means that if you truly want to get the most out of Social Security that you can, you will need to do some digging and know what questions you need to ask. Unfortunately, some estimates indicate bad filing information or advice costs Social Security beneficiaries more than $130 million.[1]

So, how do you know if you are making the right choice when you file? I suggest you spend a little time on this, as it is not a light decision to make. In fact, in addition to the Social Security website itself, there is a website I recommend called MaximizeMySocialSecurity.com.

This is a great resource, and not a bad place to start, although it may cost a small fee. Or, you can get the analysis done from firms like mine that already have access to these calculators and software programs. If you feel more comfortable seeking professional help, my company works with a renowned Social Security expert out of Boston University, Lawrence Kotlikoff, in order to help us answer hard questions. We want to make sure the people we meet with file in the way that *best* suits their needs.

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[1] Lorie Konish. CNBC Money. March 1, 2018. "Bad Social Security Advice Cost Recipients $131 million." https://www.cnbc.com/2018/03/01/bad-social-security-advice-cost-recipients-131-million.html

Remember, your savings and income streams will be the foundation of a stable retirement!

Avoid risk, create income streams, maximize Social Security, and don't be the Norm!

Notes/Questions?

Chapter 10

Tax Management

Benjamin Franklin famously said, "The only sure things in life are Death and Taxes." After all this time, I am still not sure which inevitable event people hate the most!

While we all probably agree that we all need to contribute our *fair share*, I am of the opinion that paying *more* than your fair share does not make you more patriotic than the person paying the minimum amount of taxes they have to. I call those people *poor planners*.

One of the most important parts of planning for the future involves anticipating taxes in retirement. Many retirees are surprised that when they retire, they are actually in a higher tax bracket than when they were working. Bet you didn't see that coming, right?

The goal of any sound retirement plan is to plan in a way to allow you to maximize guaranteed income, plan for the unexpected, and keep more by paying less in taxes, if possible. One of the most well-known methods of reducing taxes is to pay taxes at a lower rate, before growth, and before getting into a higher marginal tax bracket.

Let's use an analogy of a farmer to illustrate what I mean. In simple terms, imagine a farmer needs to buy $10,000 worth of seeds to plant his field of crops. Let's suppose he can earn up to $100,000 profit when he sells the crops at the end of the harvest. In his present tax bracket, the farmer has to pay 15 percent in taxes on the seeds. He can either pay taxes on the $10,000 worth of seeds, which is $1,500 in taxes now, and he will keep the full $100,000 in profit when he harvests the crop, or he could skip taxes now, and wait until next year to pay taxes when his harvest income puts him in the 25 percent bracket. On $100,000 in profit, he will pay $25,000 in taxes and be left with $75,000. If you were this farmer, which would you choose?

Would you rather pay tax on this?

Or this?

I think I know your answer.

Yet I find it interesting how so many accountants are more interested in this year's tax deductions, that they have you put off paying taxes on the "seeds" now, only to see you pay more later.

In late 2017, President Trump made changes to our tax codes that are to last a total of eight years. Essentially, all tax brackets were reduced by approximately 3-4 percent starting in 2018. This essentially means that ***taxes are on sale*!** The best thing to do when an opportunity like this comes along is to take advantage and pay taxes now, at a lower rate, and enjoy the harvest later!

How can we do this? You might have heard of a Roth IRA. You might already have a Roth. If so, pat yourself on the back! A Roth works exactly like the analogy I use about the farmer with his crops. When you use a Roth IRA for retirement savings, you pay taxes on the money going into the account, *before* it has time to grow. You might pay taxes on your $100,000, and if it grows to $1,000,000, or however much it turns out to be, you can pull the money out *tax-free*! Imagine how much money you get to keep in your pocket by simply paying taxes now rather than later, especially if it is at a lower rate.

Roth IRAs are good, but they aren't necessarily my favorite tax plan. My favorite tax-planning vehicle is much like a Roth, but like a Roth on *steroids*! It has a funny name, too: LIRP. LIRP stands for life insurance retirement plan. It actually operates under the IRS Tax Code Section 7702.

A LIRP Plan uses IRS Tax Code Section 7702(a) to combine loan provisions in the permanent life insurance policy providing "tax-free" income with the financial market opportunity of a major stock market index.

I'm not talking about life insurance that is set up to pay huge benefits to your kids or spouse when you die (sounds more like *death* insurance!). I am talking about a tax-deferred retirement vehicle that just so happens to also provide long-term care insurance, *tax-free* retirement income, *and* an accelerated death benefit for terminal illness. You may not need life (death) insurance in retirement, but a LIRP offers competitive returns, no risk to principal in the cash account, and so much in tax and other benefits, that it is one of the things I get most excited about to incorporate in a retirement plan—*especially* when it comes to tax savings and keeping more in your pocket!

The following is an example of how someone aged sixty in reasonably good health with more than $500,000 in taxable assets might use a LIRP for a significant tax-advantaged income stream and other benefits.

Initial Annual Premium: $100,000.00 — Premiums Payable Through Age 64
Initial Interest Rate 6.96% — Current Policy Charges

Yr	Age	Annual Premium Outlay	Loans	Loan Repayments	Loan Interest	Loan Interest Paid	Policy Debt	Net Outlay	Net Death Benefit
1	60	100,000	0	0	0	0	0	100,000	1,385,038
2	61	100,000	0	0	0	0	0	100,000	1,475,063
3	62	100,000	0	0	0	0	0	100,000	1,570,581
4	63	100,000	0	0	0	0	0	100,000	1,672,070
5	64	100,000	0	0	0	0	0	100,000	1,780,004
6	65	0	0	0	0	0	0	0	650,000
7	66	0	46,404	0	1,495	0	47,899	-46,404	602,101
8	67	0	46,404	0	4,369	0	98,671	-46,404	551,329
9	68	0	46,404	0	7,415	0	152,490	-46,404	509,611
10	69	0	46,404	0	10,644	0	209,538	-46,404	476,478
Total		**500,000**	**185,616**	**0**	**23,922**	**0**		**314,384**	
11	70	0	46,404	0	14,067	0	270,009	-46,404	463,691
12	71	0	46,404	0	17,695	0	334,109	-46,404	443,661
13	72	0	46,404	0	21,541	0	402,054	-46,404	422,208
14	73	0	46,404	0	25,618	0	474,076	-46,404	399,234
15	74	0	46,404	0	29,939	0	550,419	-46,404	374,644
16	75	0	46,404	0	34,520	0	631,343	-46,404	348,347
17	76	0	46,404	0	39,375	0	717,122	-46,404	340,096
18	77	0	46,404	0	44,522	0	808,048	-46,404	332,720
19	78	0	46,404	0	49,978	0	904,430	-46,404	326,351
20	79	0	46,404	0	55,761	0	1,006,594	-46,404	321,127
Total		**500,000**	**649,656**	**0**	**356,938**	**0**		**-149,656**	

The total value proposition here is:

Guaranteed Lifetime Income

- $46,404 tax-free income at sixty-six
- $300,000-$400,000 of LTC coverage
- $1.4 million initial life insurance coverage

Now, this book is about making the *most* of *your* retirement and not just about leaving a legacy, although I am sure you would rather pass any extra money to your estate rather than to Uncle Sam! As a Certified Estate Planner (CEP), I make sure my clients don't neglect estate planning and plan for potential estate taxes when applicable. Tax planning for estates is important when it comes to building a legacy that can last for generations because taxes can be one of the biggest drains on the impact of your hard work and what you are able to keep in the family.

Depending on the size of the estate and limits in place at the time of death, there may be estate taxes due. Some people plan around this by using charitable contributions, charitable trusts, irrevocable trusts, gifting, and other tax-efficient strategies to reduce their final tax bill.

For 2017, the federal estate exemption was $5.49 million per individual and $10.98 million for a married couple using an A/B trust or credit shelter trust. Estates can face up to a 40 percent tax rate after that. In 2018, those limits increased to $11.2 million for individuals and $22.4 million for married couples using a trust effectively, with the 40 percent top-level gift and estate tax remaining the same.

The new estate limits are set to increase with inflation until January 1, 2026, and like the temporary income tax reductions, they will "sunset" back to the inflation-adjusted 2017 limits. Keep in mind, this does not take into account the various state regulations and taxes regarding estate and inheritance transfers. Since each state is different, I will not try to go into any further detail here!

I know, it is a lot to think about! My advice? Make sure you meet with someone who can help you map it all out. Unless you are a tax professional yourself, tax planning is a tricky thing to navigate alone, and if you are fairly affluent, taxes are not cheap!

Make sure you plan ahead, take advantage of low tax rates when you can, and keep as much money as you *legally* can in your pocket and in your estate!

Notes/Questions?

Chapter 11

Long-Term Care

I was browsing Facebook the other night when I came across a meme that said, “the best retirement plan is having a rich kid with a big house!” While this made me chuckle, I think we all realize this would be a pretty big letdown. Many would consider this a colossal retirement plan failure. Do you really want to end up having to move in with your kids? I sure don’t!

Most retirees and pre-retirees I meet with totally underestimate the cost of long-term care or the necessity for planning for it. Why? In most cases, I find there is a huge misconception that Medicare will take care of all medical expenses in retirement and will also cover long-term care. This is simply not true! First of all, while Medicare is a great program for retirees, it has a lot of gaps in coverage and does not provide anything for actual long-term care. This means it will be coming out of *your* pocket—100 percent

Currently, the average cost of LTC is $7,000-$8,000 *per month*![2] If you don’t have long-term care insurance, you could wipe out your entire retirement fund in a short time. As I

[2] Genworth. 2019. “2019 Cost of Care Survey.” https://www.genworth.com/aging-and-you/finances/cost-of-care.html

mentioned in the last chapter, one of my favorite ways to avoid this is to use a LIRP, although you can buy specific LTC pay-as-you-go insurance policies as well. However, you have to plan *in advance*. Like all insurance, you must qualify *before* you are in need of the benefit. Don't be like Esther, who called me a few years after she had first met with me. She and her husband, Max, rejected all my suggestions, including those regarding a long-term care plan, and went on their way. Okay. Some will, some won't. So, what?

Then the call came. "Hi Jeff, It's Esther, remember me? You talked to Max and I a few years ago about that nursing home program?" *Yes, of course.* "Well, I need you to come over as soon as possible and sign us up. Max had a stroke, and it doesn't look good." *Oh, I'm so sorry Esther* . . . "Anyway, as you know, Jeff, Max is a big man, I can't lift or move him around, and he needs to go to a nursing home. I need to get signed up for that plan right away because we can't afford it otherwise. Can you come over? I can't leave Max alone."

Boy, do I hate calls like that! Unfortunately, it's called an action plan, not a *re*-action plan.

I wish I could say that I had a special remedy for occasions just like this, but I don't. They had elected to continue with their retirement without planning for long-term care, figuring that they could wait a while longer, and maybe think about it again down the road. Now, both were in their eighties, and with Max already in a severely poor condition, it would be impossible for them to qualify for the programs that would protect them from this exact scenario. It was a bitter pill for Esther to swallow. Failing to plan for a health disaster had derailed what was left of their future.

I get it! Who wants to dwell on what will happen if they can no longer toilet, bathe, dress, or even feed themselves? No one wants to be there, but life (and the need for long-term care) happens. Yes, this is one of those not-so-fun parts of planning ahead. Pleasant or not, a little bit of preparation now can go a long way, so *don't* wait! I don't want "that call."

When it comes to your longevity, just like with your goals, one of the important things to do is sit and dream. It may not always be the fun ones like the road-trip-to-the-Grand-Canyon kind of dreaming, but spend time envisioning how you want your twilight years to look. Yes, even in dire circumstances that are bound to happen.

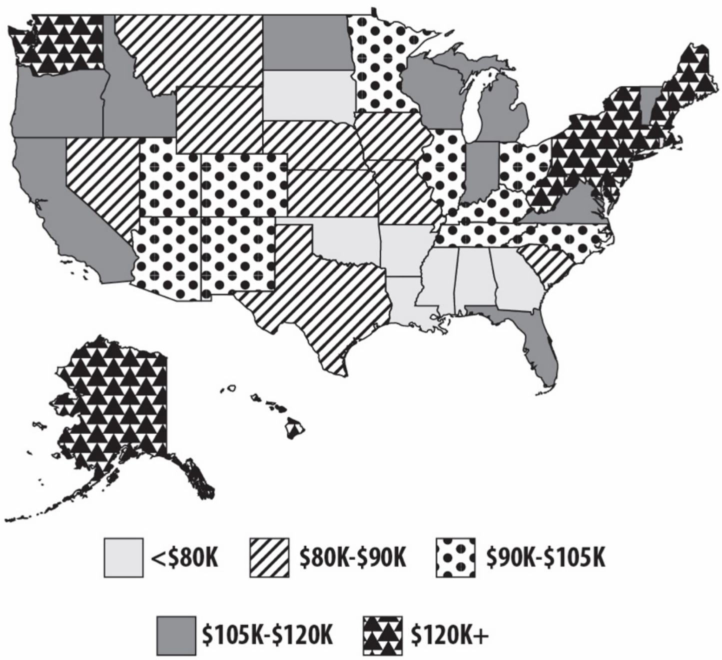
For instance, is it important for you to live in your home for as long as possible? Who will provide for the day-to-day fixes and to-dos of housework if you become ill? Will you set aside money for a service, or do you have relatives or friends near at hand whom you would comfortably allow to help you? Do you prefer in-home care over nursing homes or assisted living facilities? This could be a good time to discuss the possibility of moving into a retirement community versus staying where you are, or whether it's worth moving to another state closer to family or maybe one that requires you to leave friends and/or relatives behind.

These are important factors to discuss with your spouse and children, as *now* is the best time to address questions and concerns. For instance, is aging in place more important to one spouse than the other? Are the friends or relatives who live nearby emotionally, physically, and financially capable of helping you for a time if you have an illness? Are you in a place where you can afford the services you may need, or would it be better to live where those costs, as well as others, are more in line with your budget?

Over the years, I have occasionally come across people who really do have a, "I will just move in with my kids" plan. From my experience, I can say that this is the *last* plan I would recommend. Sure, you love your kids, and your kids love you. This doesn't mean they are going to be able (or willing) to take care of you!

Long-term care might last years or decades. The stress of full-time care can devastate relationships and create an extreme hardship for the children as they struggle to care for their parents. I have personally witnessed some of these situations, and they can turn ugly! Avoid the headache and heartache by planning for the unknown *before* it's too late!

Average Annual Cost of Long-Term Care?[3]



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[3] Ibid.

Notes/Questions?

Chapter 12

What About Medicare?

Another thing to consider when planning for the future is that health care is one of the single greatest expenses for seniors in retirement. Although you might not end up in a nursing home anytime soon, it is still in your best interest to pay as little as possible, wherever possible! One way to reduce health care costs and liability is by enrolling in Medicare once you are eligible, which is normally at age sixty-five.

To put it simply, there are **Medicare Parts A and B,** also referred to as "Original Medicare." This coverage is standard for everyone who is eligible for Medicare enrollment. However, Original Medicare still leaves "gaps" in coverage. **Medicare supplements** (also referred to as **Medigap insurance)** are purchased from insurance companies for additional coverage in order to reduce overall out-of-pocket healthcare costs. These Medicare supplement plans have been standardized since 1992, which means you will find the same plans available across the board. Currently, there are **ten Medicare supplement plans**, with the most popular plans being F, G, and N. All plans of the same letter have *exactly* the same coverage and provisions as any other company's corresponding plan, which means whether you buy Plan G coverage from Company A or Company B, you will be getting the *same* coverage.

What does this mean for you? Shopping for supplements is easy! All you have to do is simply find out who offers your desired plan in your area for the lowest possible premium! You would be surprised how much money you might be able to save--so don't miss out! I recommend you find out what rates you can qualify for each year. At my firm, we do this for our clients on a regular basis, and I would suggest finding someone that can help you do the same. Keep in mind, some businesses might only offer Medicare supplements from one company, so be sure to avoid buying a supplement from someone with limited offerings.

You may already have a Medicare supplement, or you may even have a Medicare Advantage plan. **Medicare Advantage** plans are offered through private insurance companies. They are **similar to HMOs and PPOs:** you must stay in-network to ensure coverage. They will cover all that Part A and Part B cover, but often offer additional coverage for dental, vision, and wellness programs, etc. These plans can have $0 premiums, but typically higher copays and coinsurance. These plans can save you a lot of money if you don't need to see a doctor very often. Keep in mind that as you age, you are bound to need more health care, so I don't normally recommend going this route for too long!

Whichever type of plan you go with, make sure to consider enrolling in **Medicare Part D**: prescription drug coverage! Prescription drug coverage can be bought as part of a plan, or as a standalone product to offset the cost of buying medications. According to a study by AARP, the average senior citizen takes 4.5 prescription drugs per month, which translates to more than $30,000 per year! Part D coverage helps offset these costs.[4]

Control what you can and prepare for what you can't. Aging is not easy! Along with insuring against long-term care costs and gaps in Medicare coverage, I would highly encourage you to eat healthy, stay active, take necessary prescribed medicines or vitamins, and get yourself checked out by a doctor as often as you deem necessary. No amount of money outweighs feeling happy and healthy in retirement!

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[4]*AARP*. September 26, 2018. "No End in Sight for Skyrocketing Brand Name Drug Prices."
https://press.aarp.org/2018-9-26-No-End-in-Sight-for-Skyrocketing-Brand-Name-Drug-Prices

Notes/Questions?

Chapter 13

Estate Planning Basics

I was at a restaurant in Florida a few years ago where there were all kinds of creative signs around. As a Certified Estate Planner, one that caught my eye more than others said, "*Where there's a will, I want to be in it*!" I had to laugh.

Estate planning has far more to do with giving *what* you have, to *who* you choose, *how* you want, with the *least* amount of trouble and expense when you die. For the purposes of this book, however, we will leave it pretty much at that level.

There are three basic formal methods to leave assets in an estate to beneficiaries. They are wills, trusts, and beneficiary designations. These are necessary for anything that bears a title or a financial custodian.

There is also a fourth, informal method, just for personal property, such as furniture and other items that don't bear a title or require any type of formal reporting. For those assets, I prefer what I call "pick-up truck" estate planning, where the heirs come and get the personal property and distribute it before anyone else knows anything about it. Yes, it is legal, unless you are trying to avoid estate taxes. If that were the case, you would have to own millions of dollars in personal property, which is highly unlikely.

Perhaps the biggest consideration for choosing a particular method for estate transfer is based on how easily an heir will get your "stuff." That's why we should take a minute to look at probate. For many years, the staple of estate plans was to have your family attorney draft up a will. Then, when you died, your estate went through probate.

Probate is a process that requires court oversight to make sure your assets transfer to the rightful beneficiaries upon your death. Your will is your ticket to probate, and it's the document they use to guide the process. The word probate is derived from a Latin term meaning *to prove* in court. The process may have been easy in the past, but with court costs and complications these days, not to mention wait times just to go through the process, it is getting more costly and cumbersome than ever. The process appoints an administrator and verifies the executor you have chosen to oversee the probate of your estate.

Probate includes a public reading of the will and public disclosure of the assets in question. Do you want your estate laid out for the world to see? I don't think so!

Why would anyone opt for their estate to go through probate? Sounds more like a get-rich scheme for attorneys, to me. You're dead, so you don't even get to negotiate the fees they charge!

I see only one legitimate reason you would want to go through the probate process. That is when you actually trust the courts and lawyers more than you trust your heirs or anyone else you know. I suppose that could be true for some, but for the majority of people I have served in my thirty-year career, nearly everyone knows someone who can handle providing a death certificate and filling out a few pages of asset transfer documents.

I can't see why court would be necessary in many situations. That's why my favorite methods of estate planning have *nothing* to do with probate. Living trusts are one way to avoid it, and direct beneficiary designations are the other way.

Beneficiary designations are by far the easiest. Just name a beneficiary on all your accounts. You have probably already done this on your IRA or 401(k) accounts and annuity or insurance policies. The applications on these accounts make you designate a beneficiary when you set them up. Non-qualified bank and brokerage accounts can use a POD (pay-on-death) designation or ITF (in trust for) in order to bypass probate.

What about real estate? That's where the trust usually comes in handy, but many states have instituted laws where you can file a beneficiary deed so your real property can pass directly to beneficiaries upon your death without probate. This is fairly new and only available in a few states, including my home state of Arizona. If your state doesn't have this available, you may need a trust to pass real estate to your heirs without tying it up in probate. We will get into the mechanics of a trust in a minute, but first, we need to finish this beneficiary designation topic.

It's important to make sure you list a real person as your beneficiary, as well as making sure you list contingent beneficiaries. Sometimes I see the word "estate" listed as the beneficiary on some accounts, and I want to alert you to how bad that could be for your heirs. "Estate" listed as a beneficiary means your heirs will need to go to the probate court to decide who your "estate" actually is. Without names, the probate court will use their rules as to who gets what and *how* they get it, and not necessarily according to your wishes.

So, I will give you another homework assignment right now. Go look at all your beneficiary designations on all of your accounts. If any of them say "estate," please change it to a real person or entity name, such as your spouse, children, etc. Or, you can use a charity if you'd like, but be *specific*.

Now, let's move on to trusts. **Living trusts** can come in two basic forms; **revocable** (changeable or modifiable) and **irrevocable**, meaning you had better be happy with how you set it up because changes are difficult at best.

While trusts have benefits for estate tax avoidance or minimization, most people use trusts for probate avoidance. The revocable living trust is the most commonly used, because it provides the flexibility of making modifications whenever the owners want while allowing them to stay 100 percent in control of all their assets. And of course, the assets in a properly funded living trust will pass on to heirs without dealing with probate.

The creator of a trust is called a settlor, or trustor, and the settlor also, in most cases, acts as the trustee or "boss" of all the assets owned in the trust, just as things were prior to putting them all in the trust.

You put your assets in the trust by a process we call funding. Basically, it means transferring the name on all your assets from your individual or joint name(s) to the name of your trust. You continue to manage everything, until you become disabled or die, at which point a successor trustee—usually your heir(s) or someone you trust—takes over the management of your estate.

Okay, so now you have your distribution plan all figured out. But you're not done yet!

What about before you die? Is there anything that might happen that could need other estate planning documents? Of course there is! Permanent disability or temporary incapacitation is an example. What happens then? No matter what you choose as your final plan upon death, it is very likely that you will need legal documents to take care of what we call **living probate**.

There are four estate planning documents everyone needs for estate management in such instances. They are powers of attorney for health care, powers of attorney for financial matters, and a living will. Health-care-related documents need to be accompanied by a HIPAA document ,as well.

Powers of attorney assign someone else to be your agent if you cannot act for yourself due to incapacity or other circumstances. The HIPAA document releases a doctor or other person bound by patient confidentiality, allowing them to share important information with your agent so they can make proper decisions on your behalf.

The living will is a document that allows your wishes for life-sustaining processes to be discontinued if you are in a persistent vegetative state and have no medical probability of recovery corroborated by at least two doctors.

Once again, you're never too young to have these documents. No one knows their death date or when a tragic event may occur. My father had a stroke and was incapacitated at age fifty-six—long before my parents even started thinking of the inevitable. Not having an estate plan meant many additional inconveniences stacked up on top of already difficult times.

The estate plan may be the final piece of the puzzle as far as when it may go into play, but it certainly is not the last piece you should put in place. Begin now. It's never too early.

Notes/Questions?

Chapter 14

Putting all the Pieces Together

"Small deeds done are better than great deeds planned."
~ Peter Marshall

Remember how we started out on this journey together talking about puzzles? Well, how do you start putting these pieces together? My hope in writing this book is that you are inspired to take *action*! All the planning and learning in the world won't make a significant change in your life if you never take the steps necessary to make your plan actually come to life! Think about how you want to live your final years on this earth. What do you need to *do* to get there?

I have an invitation for you. I want you to put in a little bit of work when you finish this book. I want you to get a notepad or a piece of paper or open your favorite note-taking app on your phone, and I want you to make a list. Not a list that you will feel good about, and forget about by tomorrow, but rather, a *real* list of actual changes you are willing to make.

Is that too hard? Then just pick *one* pillar to start with. But start right away! Put it on your calendar. Make it non-negotiable. Then work on another one until you get them all covered. Do *something*! What are you willing to do *today*?

A puzzle is not always completed in one day, and a retirement plan definitely isn't. In fact, it will need revisions as you go along. My personal goal is that you will take some of what I have written and find a way to improve your retirement life for the better!

If you are feeling inspired to make some real change, don't wait. I also invite you to reach out to my firm or me if you would like to give feedback or have any questions on implementing the ideas you have generated by reading this book. If you would like, let us know if you could benefit from the help of an experienced "Sherpa" as you ascend and/or descend your personal Mount Everest.

Wishing you the best!

Jeff P. Vogan, RFC, RIA, CEP

Notes/Questions?

Remaining Action Items

About the Author

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RFC®, CEP®

Jeff P. Vogan is the president and founder of Premiere Retirement Planning & Wealth Management, with offices in Tucson and Mesa, Arizona.

Jeff holds the designations of Certified Estate Planner and Registered Financial Consultant, which, in his opinion, are two of the most advanced designations in the profession.

He is a Registered Investment Advisor, founder of Premiere Wealth Advisors, LLC, an Arizona State Registered Investment Advisor, and is regulated as a fiduciary.

Through books and articles as well as regular TV appearances and a weekly radio show, Jeff draws on his thirty years of experience as a financial professional to educate and enlighten retirees and pre-retirees on how to help protect, preserve, and pass on wealth to their families.

Jeff is a graduate of Brigham Young University and is a member of the International Association for Registered Financial Consultants as well as the National Institute of Certified Estate Planners.

Glossary

1035 Exchange
A method of exchanging insurance-related assets without triggering a taxable event. Cash-value life insurance policies and annuity contracts are two products that may qualify for a 1035 exchange.

401(k) Plan
A qualified retirement plan available to eligible employees of companies. 401(k) plans allow eligible employees to defer taxation on a specific percentage of their income that is to be put toward retirement savings; taxes on this deferred income and on any earnings the account generates are deferred until the funds are withdrawn—normally in retirement. Employers may match part or all of an employee's contributions. Employees may be responsible for investment selections and enjoy the direct tax savings.

401(k) Loan
A loan taken from the assets within a 401(k) account. 401(k) loans charge interest and are normally paid back through payroll deductions. If the borrower leaves an employer before a 401(k) loan has been repaid, the full amount of the loan is generally due. If the borrower fails to repay the loan, it is considered a distribution, and ordinary income taxes may be due, along with any applicable tax penalties.

403(b) Plan
A 403(b) plan is similar to a 401(k). A 403(b) is a qualified retirement plan available to employees of non-profit and government organizations.

Adjusted Gross Income (AGI)
One figure used in the calculation of income tax liability. AGI is determined by subtracting allowable adjustments from gross income.

Administrator
A probate-court-appointed person who is tasked with settling an estate for which there is no will.

After-Tax Return
The return on an investment after subtracting any taxes due.

Aggressive Growth Fund
A mutual fund offered by an investment company that specifically pursues substantial capital gains. Mutual fund balances are subject to fluctuation in value and market risk. Shares, when redeemed, may be worth more or less than their original cost. Mutual funds are sold only by prospectus. Individuals are encouraged to consider the charges, risks, expenses, and investment objectives carefully before investing. A prospectus containing this and other information about the investment company can be obtained from your financial professional. Read it carefully before you invest or send money.

Alternative Minimum Tax (AMT)
A method of calculating income tax with a unique set of rules for deductions and exemptions that are more restrictive than those in the traditional tax system. The AMT attempts to

ensure that certain high-income taxpayers don't pay a lower effective tax rate than everyone else. To determine whether or not the AMT applies, taxpayers must fill out IRS Form 6251.

Annuity

A contract with an insurance company that guarantees current or future payments in exchange for a premium or series of premiums. The interest earned on an annuity contract is not taxable until the funds are paid out or withdrawn. Withdrawals and income payments are taxed as ordinary income. If a withdrawal is made prior to age fifty-nine-and-one-half, penalties may apply. The guarantees of an annuity contract depend on the issuing company's claims-paying ability. Annuities may have fees and charges associated with the contract, and a surrender charge also may apply if the contract owner elects to give up the annuity before certain time-period conditions are satisfied.

Asset

Anything owned that has a current value that may provide a future benefit.

Asset Allocation

A method of allocating funds to pursue the highest potential return at a specific level of risk. Asset allocation normally uses sophisticated mathematical analysis of the historical performance of asset classes to attempt to project future risk and return. Asset allocation is an approach to help manage investment risk. It does not guarantee against investment loss.

Asset Class
A specific category of investments that share similar characteristics and which tend to behave similarly in the marketplace.

Automatic Reinvestment
An arrangement under which an institution automatically deposits dividends or capital gains generated by an individual's investment back into the investment to purchase additional shares.

Balanced Mutual Fund
A mutual fund offered by an investment company which attempts to hold a balance of stocks and bonds. Mutual funds are subject to fluctuation in value and market risk. Shares, when redeemed, may be worth more or less than their original cost. Mutual funds are sold only by prospectus. Individuals are encouraged to consider the charges, risks, expenses, and investment objectives carefully before investing. A prospectus containing this and other information about the investment company can be obtained from your financial professional. Read it carefully before you invest or send money.

Bear Market
A market experiencing an extended period of declining prices. A bear market is the opposite of a bull market.

Beneficiary
The person or entity who will receive benefits from a life insurance policy, qualified retirement plan, annuity, trust, or will upon the death of an individual.

Blue-Chip Stock
The stock of an established company that has a history of generating a profit and possibly a consistent dividend.

Bond
A debt instrument under which the issuer promises to pay a specified amount of interest and to repay the principal at maturity. The market value of a bond will fluctuate with changes in interest rates. As rates rise, the value of existing bonds typically falls. If an investor sells a bond before maturity, it may be worth more or less than the initial purchase price. By holding a bond to maturity, an investor will receive the interest payments due plus his or her original principal, barring default by the issuer. Investments seeking to achieve higher yields also involve a higher degree of risk.

Bull Market
A market experiencing an extended period of rising prices. A bull market is the opposite of a bear market.

Buy-and-Hold
An investment strategy that advocates holding securities for the long term and ignoring short-term price fluctuations in the market.

Capital Gain or Loss
The difference between the price at which an asset was purchased and the price for which it was sold. When the sale price is higher than the purchase price, the difference is a capital gain; when the sale price is lower than the purchase price, the difference is a capital loss.

Cash Alternatives

Assets that are most easily converted into cash and which have a very low risk of price fluctuation. For example, money market funds may be considered a cash alternative. Money held in money market funds is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Money market funds seek to preserve the value of your investment at $1.00 a share. However, it is possible to lose money by investing in a money market fund.

Cash Surrender Value

The amount a policyholder would receive when voluntarily terminating a cash-value life insurance policy before the insured event occurs or when cashing out an annuity contract before its maturity. Computation of cash surrender value is stated in the life insurance or annuity contract.

Certificate of Deposit (CD)

A deposit with a bank, thrift institution, or credit union that promises a fixed interest rate on funds deposited for a specified period of time. Bank savings accounts and CDs are FDIC insured up to $250,000 per depositor per institution and generally provide a fixed rate of return, whereas the value of money market mutual funds can fluctuate.

Claim

A request for payment under the terms of an insurance policy.

COBRA

A federal law that requires group health plans sponsored by employers with more than twenty employees to offer terminated or retired employees the opportunity to continue their health insurance coverage for a specified period at the employees' expense.

Coinsurance or Co-Payment
A policy provision under which an insurance company and the insured party share the total cost of covered medical services after the policy's deductible has been met.

Common Stock
A security that represents partial ownership of a corporation. Those who hold common stock are entitled to participate in stockholder meetings, to vote for the board of directors, and may receive periodic dividends.

Community Property
State laws under which most property and debts acquired during a marriage—except for gifts or inheritances—are owned jointly by both spouses and are divided upon divorce or annulment. In the United States, nine states have community property laws: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin.

Compound Interest
A process under which interest is computed both on an account's principal and on any gains reinvested in prior periods. This is contrasted with simple interest, in which interest is calculated only on the principal amount.

Consumer Price Index (CPI)
The U.S. government's main measure of inflation, calculated monthly by the Department of Labor.

Corporate Bond
A debt security issued by a corporation under which the issuer promises to make periodic interest payments and to repay the investor's principal at maturity. The market value of a bond will fluctuate with changes in interest rates. As rates rise, the value of existing bonds typically falls. If an investor sells a bond before maturity, it may be worth more or less than the initial purchase price. By holding a bond to maturity, investors will receive the interest payments due plus their original principal, barring default by the issuer. Investments seeking to achieve higher yields also involve a higher degree of risk.

Debt
An obligation owed by one party (the debtor) to a second party (the creditor).

Deduction
An amount that can be subtracted from gross income before income taxes are calculated.

Deed
A legal document that confirms ownership of an asset or that confirms the passage of an interest, right, or ownership in the asset from one person or legal entity to another.

Deferred Annuity
A contract with an insurance company that guarantees a future payment or series of payments in exchange for current premiums. The interest earned on an annuity contract is not taxable until the funds are paid out or withdrawn. The guarantees of an annuity contract depend on the issuing company's claims-paying ability. Annuities have fees and

charges associated with the contract, and a surrender charge also may apply if the contract owner elects to give up the annuity before certain time-period conditions are satisfied.

Defined-Benefit Plan
A retirement plan under which the benefit to a retiring employee is defined. Defined-benefit plans are normally funded by employer contributions.

Defined-Contribution Plan
A retirement plan under which the annual contributions made by the employer or employee are defined. Benefits may vary depending on the performance of the investments in the account.

Direct Rollover
The direct transfer of assets from the trustee or custodian of one qualified retirement plan or account to the trustee or custodian of another. Done correctly, direct rollovers do not trigger taxable events.

Diversification
An investment strategy under which capital is divided among several assets or asset classes. Diversification operates under the assumption that different assets and/or asset classes are unlikely to move in the same direction, allowing gains in one investment to offset losses in another. Diversification is an approach to help manage investment risk. It does not eliminate the risk of loss if security prices decline.

Dividend
Taxable payments made by a company to its shareholders. Some dividends are paid quarterly, and others are paid

monthly. Companies can adjust common share dividends at any time, pending approval by the company's board of directors.

Dollar-Cost Averaging
An investment strategy under which a fixed dollar amount of securities is purchased at regular intervals. Under dollar-cost averaging, more shares are purchased when prices are low and fewer shares when prices rise. Keep in mind that dollar-cost averaging does not protect against a loss in a declining market or guarantee a profit in a rising market. Investors should evaluate their financial ability to continue making purchases through periods of declining and rising prices.

Dow Jones Industrial Average (DJIA)
An average calculated by summing the prices of thirty actively leading stocks on the New York Stock Exchange (NYSE) and dividing the sum by a divisor, which has been adjusted to account for cases of stock splits, spinoffs, or similar structural changes. Individuals cannot invest directly in an index.

Early Withdrawal
Withdrawal of funds from an investment before its maturity date or withdrawal of funds from a tax-deferred account before the legally imposed age requirements have been satisfied. Early withdrawals may be subject to penalties.

Employer-Sponsored Retirement Plan
A retirement plan sponsored by an employer for the benefit of its employees. These typically fall into one of two types: defined-contribution plans (such as SEP IRAs, 401(k) plans, and 403(b) plans) and defined-benefit plans (such as traditional pensions).

Equity
The value of real property or a business after all liabilities have been paid. A home worth $300,000 with a $200,000 mortgage would have $100,000 in equity.

Estate Management
The preparations necessary to manage a person's financial and healthcare matters during his or her lifetime and to effectively and economically distribute the assets within that estate upon his or her death.

Estate Tax
Federal and/or state taxes that may be levied on the assets of a deceased person upon his or her death. These taxes are paid by the deceased person's estate rather than his or her heirs.

Exchange-Traded Funds (ETFs)
A share of an investment company that owns a block of shares selected to pursue a specific investment objective. ETFs trade like stocks and are listed on stock exchanges and sold by broker-dealers. Exchange-traded funds are sold only by prospectus. Please consider the charges, risks, expenses, and investment objectives carefully before investing. A prospectus containing this and other information about the investment company can be obtained from your financial professional. Read it carefully before you invest or send money.

Executor
A person named by a will or appointed by the probate court to distribute the deceased's assets as directed by the will or, in the absence of a will, in accordance with the probate laws of the state.

Federal Income Tax Bracket
A series of income ranges within which a taxpayer's income is taxed at a certain rate. Taxpayers pay the tax rate in a given bracket only for that portion of their overall income that falls within the bracket's range.

Federal Reserve System (The Fed)
The United States' central bank. The Federal Reserve System consists of a series of twelve independent banks that operate under the supervision of a seven-member, federally appointed board of governors. The Fed strives to maintain maximum employment, stable price levels, and moderate long-term interest rates. It establishes and enforces the regulations banks, savings and loans, and credit unions must follow. It also acts as a clearinghouse for certain financial transactions and provides banking services to the federal government.

Fiduciary
A fiduciary is responsible for managing the assets of another person or of a group of people. Asset managers, bankers, accountants, executors, board members, and corporate officers can all be considered fiduciaries when entrusted in good faith with the responsibility of managing another party's assets.

A fiduciary's responsibilities are both ethical and legal. When a party knowingly accepts a fiduciary duty on behalf of another party, they are required to act in the best interest of the party whose assets they are managing. The fiduciary is expected to manage the assets for the benefit of the other person rather than for his or her own profit or personal benefit ,and all potential conflicts of interest must be disclosed.

First-to-Die Life Insurance
Joint life insurance taken out on the lives of two or more people that pays its death benefit when the first insured person dies.

Fixed Annuity
A contract with an insurance company that guarantees investment growth at a fixed interest rate as well as current or future payments in exchange for a premium or series of premiums. The interest earned on an annuity contract is not taxable until the funds are paid out or withdrawn. The guarantees of an annuity contract depend on the issuing company's claims-paying ability. Annuities have fees and charges associated with the contract, and a surrender charge also may apply if the contract owner elects to give up the annuity before certain time-period conditions are satisfied.

Front-End Load
A sales fee paid at the time an investment is purchased. This fee is deducted from the investment—thus lowering the size of the investment.

Fundamental Analysis
A method of evaluating securities that examines financial and economic factors—such as the current finances of a company and the prevailing economic environment—to determine whether the company's future value is accurately reflected in its current stock price.

Gift
The voluntary transfer of assets under which the giver receives no compensation and retains no interest in his or her gift.

Gift Tax
A tax the federal government and some states levy on the transfer of property as a gift. Generally, gift taxes increase with the amount of the gift and are paid by the donor.

Gross Monthly Income
Total monthly income generated from all sources before taxes and other expenses are considered.

Health Savings Account (HSA)
An account that offers individuals covered by high-deductible health plans a tax-advantaged means to save for medical expenses. Within certain limits, funds contributed to the account are not subject to federal income taxes. Unlike Flexible Spending Accounts (FSAs), funds can be rolled over from year to year if not spent.

Home Equity
The real value of a home after all liabilities have been paid. Thus, a home worth $300,000 with a $200,000 mortgage would have $100,000 in equity.

Income
Monies or other compensation received from any source. This includes wages, commissions, bonuses, Social Security, and other retirement benefits, unemployment compensation, disability, interest, and dividends. Generally, all income is taxable unless it is specifically exempted by law.

Index
An average of the prices of a hypothetical basket of securities representing a particular market or portion of a market. Among the most well-known are the Dow Jones Industrials Index, or the Dow; the Standard & Poor's 500 Index, or the

S&P 500; and the Russell 2000 Index. Index performance is not indicative of the past performance of a particular investment. Past performance does not guarantee future results. Individuals cannot invest directly in an index.

Individual Retirement Account (IRA)
A qualified retirement account for individuals. Contributions to a Traditional IRA may be fully or partially deductible, depending on your individual circumstance. Distributions from Traditional IRA and most other employer-sponsored retirement plans are taxed as ordinary income and, if taken before age fifty-nine-and-one-half, may be subject to a 10 percent federal income tax penalty. Generally, once you reach age seventy-and-one-half, you must begin taking required minimum distributions.

Inflation
An upward movement in the average level of prices. Each month, the Bureau of Labor Statistics reports on the average level of prices when it releases the Consumer Price Index (CPI).

Intestate
The condition of an estate when its owner dies without leaving a valid will. In such circumstances, state law normally determines who inherits property and who serves as guardian for any minor children.

Investment Objective
The stated financial goal of an investment.

Irrevocable Trust
A trust that cannot be altered, stopped, or canceled after its creation without the permission of the beneficiary or trustee. Using a trust involves a complex set of tax rules and regulations. Before moving forward with a trust, consider working with a professional who is familiar with the rules and regulations.

Joint Tenancy
A form of property ownership under which two or more people have an undivided interest in the property and in which the survivor or survivors automatically assume ownership of the interest of any joint tenant who dies.

Jointly Held Property
This is property owned simultaneously by more than one person. All co-owners have an equal right to use the property, and no co-owner can exclude another co-owner from the property. The most common forms of jointly held property are joint tenancy, tenancy in common, and, in some states, community property.

Keogh Plan
A tax-deferred retirement plan for self-employed individuals and employees of unincorporated businesses. Keogh plans are similar to IRAs but have significantly higher contribution limits. Distributions from Keogh plans and most other employer-sponsored retirement plans are taxed as ordinary income and, if taken before age fifty-nine-and-one-half, may be subject to a 10 percent federal income tax penalty. Generally, once you reach age seventy-and-one-half, you must begin taking required minimum distributions.

Life Insurance
A contract under which an insurance company promises, in exchange for premiums, to pay a set benefit when the policyholder dies. Several factors will affect the cost and availability of life insurance, including age, health, and the type and amount of insurance purchased. Life insurance policies have expenses, including mortality and other charges. If a policy is surrendered prematurely, the policyholder also may pay surrender charges and have income tax implications. You should consider determining whether you are insurable before implementing a strategy involving life insurance. Any guarantees associated with a policy are dependent on the ability of the issuing insurance company to continue making claim payments.

Liquidity
The ease and speed with which an asset or security can be bought or sold.

Living Trust
A trust created by a living person which allows that person to control the assets he or she contributes to the trust during his or her lifetime and to direct their disposition upon his or her death. Generally, a living trust does not have to go through the probate process.

Living Will
A written document that allows the originator to designate someone to make medical decisions on his or her behalf in the event that he or she becomes incapacitated due to accident or illness.

Long-Term-Care Insurance
Insurance that covers the cost of medical and non-medical services needed by those who have a chronic illness or disability—most commonly associated with aging. Long-term-care insurance can cover the cost of nursing home care, in-home assistance, assisted living, and adult daycare.

Lump-Sum Distribution
A one-time payment of the entire amount held in an employer-sponsored retirement, pension plan, annuity, or similar account, rather than breaking payments into smaller installments.

Management Fee
The cost of having assets professionally managed. This fee is normally a fixed percentage of the fund's asset value; terms of the fee are disclosed in the prospectus.

Market Risk
The risk that an entire market will decline, reducing the value of the investments in it without regard to other factors. This is also known as "systemic risk."

Market Timing
This is an investment philosophy under which investors buy and sell securities in an attempt to profit from short-term price fluctuations.

Maturity
The date on which a debt security comes due for payment and on which an investor's principal is due to be repaid.

Medicaid

The federal government's health program for eligible individuals and families with low income and resources. It is means tested, meaning those who apply for benefits must demonstrate they have need.

Medicare

The federal government's health program for individuals aged sixty-five and over and for individuals who have certain disabilities or end-stage renal disease.

Money Market Fund

A mutual fund that invests in assets that are easily converted into cash and which have a low risk of price fluctuation. This may include money market holdings, Treasury bills, and commercial paper. Money held in money market funds is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Money market funds seek to preserve the value of your investment at $1.00 a share. However, it is possible to lose money by investing in a money market fund.

Municipal Bond

A debt security issued by a state, county, city, or other political entity (such as a school district) to raise public funds for special projects. The income from municipal bonds is normally exempt from federal income taxes. It may also be exempt from state income taxes in the state in which the municipal bond is issued. Bond prices rise and fall daily. Municipal bonds are subject to a variety of risks, including adjustments in interest rates, call risk, market conditions, and default risk. Some municipal bonds may be subject to the federal alternative minimum tax. When interest rates rise, bond prices generally will fall. Certain municipal bonds may be difficult to sell. A municipal bond issuer may be unable to make interest or principal payments, which may lead to the issuer defaulting on the bond. If this occurs, the municipal bond may have little or no value. If a bond is purchased at a premium, it may result in realized losses. It's possible that the interest on a municipal bond may be determined to be taxable after purchase.

Municipal Bond Fund
A mutual fund offered by an investment company that specifically invests in municipal bonds. Mutual fund balances are subject to fluctuation in value and market risk. Shares, when redeemed, may be worth more or less than their original cost. Mutual funds are sold only by prospectus. Individuals are encouraged to consider the charges, risks, expenses, and investment objectives carefully before investing. A prospectus containing this and other information about the investment company can be obtained from your financial professional. Read it carefully before you invest or send money.

Mutual Fund
A pooled investment account offered by an investment company. Mutual funds pool the monies of many investors and then invest the money to pursue the fund's stated objectives. The resulting portfolio of investments is managed by the investment company. Mutual fund balances are subject to fluctuation in value and market risk. Shares, when redeemed, may be worth more or less than their original cost. Mutual funds are sold only by prospectus. Individuals are encouraged to consider the charges, risks, expenses, and investment objectives carefully before investing. A prospectus

containing this and other information about the investment company can be obtained from your financial professional. Read it carefully before you invest or send money.

Net Asset Value
The net market value of a mutual fund's current holdings divided by the number of outstanding shares. The product of this division estimates the per-share value of the fund's assets.

Net Income
A company's total revenues minus its costs, expenses, taxes, etc. A simple way to think of it is that net income is the bottom line of a company's income statement (which may also be called the profit and loss statement).

Net Worth
This is the value of a company's or individual's assets minus their liabilities.

Non-Contributory Retirement Plan
A retirement plan that is funded entirely by employer contributions, with no employee contributions.

Non-Qualified Plan
A retirement or employee benefit plan that is not eligible for favorable tax treatment.

Partnership
A contract under which two or more individuals manage and operate a business venture.

Permanent Life Insurance
A class of life insurance policies that do not expire—as long as premiums are kept current—and which combine a death

benefit with a savings component. This savings portion can accumulate a cash value against which the policy owner may be able to borrow funds. Several factors will affect the cost and availability of life insurance, including age, health, and the type and amount of insurance purchased. Life insurance policies have expenses, including mortality and other charges. If a policy is surrendered prematurely, the policyholder also may pay surrender charges and have income tax implications. You should consider determining whether you are insurable before implementing a strategy involving life insurance. Any guarantees associated with a policy are dependent on the ability of the issuing insurance company to continue making claim payments.

Policy Loan
A loan made by an insurance company to a policyholder. Policy loans are secured by the cash value of a life insurance policy. Loans are generally not considered taxable income.

Policy Rider
A provision to a life insurance policy that is purchased separately from the basic policy and that provides additional benefits at additional cost.

Policyholder
The person or entity who holds an insurance policy, usually the client in whose name an insurance policy is written.

Portfolio
The combined investments of an individual investor or mutual fund.

Power of Attorney
A legal document that grants one or more person(s) authority to act for another person in specific legal or financial matters in the event that said individual becomes incapacitated.

Preferred Stock
Securities that represent ownership in a corporation and have a higher claim on a company's assets and earnings than common stock. Dividends on preferred stock are generally paid out before dividends to common stockholders.

Price/Earnings Ratio (P/E Ratio)
A ratio calculated by dividing a stock's price by its earnings per share. Investors use this ratio to learn how much they are paying for a company's earnings.

Principal
The original amount invested in a security, excluding earnings; the face value of a bond; or the remaining amount owed on a loan, separate from interest.

Probate
The court-supervised process in which a deceased person's debts are paid and any remaining assets distributed to his or her heirs.

Property
Anything over which a person or business has legal title. Property may be held in common or privately owned.

Prospectus
A legal document that provides the information an investor needs to make an informed decision about an investment

offered for sale to the public. Prospectuses are required by and filed with the Securities and Exchange Commission.

Qualified Retirement Plan
A retirement plan that is established and operates within the rules laid down in Section 401(a) of the Internal Revenue Code, and thus receives favorable tax treatment.

Rate of Return
A measure of the performance of an investment. Rate of return is calculated by dividing any gain or loss by an investment's initial cost. Rates of return usually account for any income received from the investment in addition to any realized capital gains.

Required Minimum Distribution (RMD)
The amount which must be withdrawn annually from a qualified retirement plan beginning April 1 of the year following the year in which the account holder reaches age seventy-and-one-half.

Revenue
The amount of money a company brings in from its business activities during a given period, before expenses and taxes have been subtracted.

Revocable Trust
A trust that can be altered or canceled by its grantor. During the life of the trust, any income earned is distributed to the grantor; upon the grantor's death, the contents of the trust are transferred to its beneficiaries according to the terms of the trust.

Risk
The chance an investment will be lost or will provide less-than-expected returns.

Risk Tolerance
A measurement of an investor's willingness or ability to handle investment losses.

Rollover
A tax-free transfer of assets from one qualified retirement program to another. Rollovers must be made in accordance with specific requirements to avoid a taxable event.

Roth IRA
A qualified retirement plan in which earnings grow tax-deferred and distributions are tax-free. Contributions to a Roth IRA are generally not deductible for tax purposes, and there are income and contribution limits. Roth IRA contributions cannot be made by taxpayers with high incomes. To qualify for the tax-free and penalty-free withdrawal of earnings, Roth IRA distributions must meet a five-year holding requirement and occur after age fifty-nine-and-one-half. Tax-free and penalty-free withdrawal also can be taken under certain other circumstances, such as after the owner's death. The original Roth IRA owner is not required to take minimum annual withdrawals.

Roth IRA Conversion
The process of transferring assets from a traditional, SEP, or SIMPLE IRA to a Roth IRA. Roth IRA conversions are subject to specific requirements and may be taxable.

Self-Directed IRA
An individual retirement arrangement in which the account holder can direct the investment of funds, subject to certain conditions and limits.

Share
A unit of ownership in a corporation or financial asset.

Spousal IRA
An individual retirement arrangement under which an IRA is established for a non-working spouse and is funded with contributions from the working spouse. Spousal and non-spousal IRAs are subject to combined annual contribution limits and must meet certain requirements. Contributions to a traditional IRA may be fully or partially deductible, depending on your individual circumstance. Distributions from traditional IRAs and most other employer-sponsored retirement plans are taxed as ordinary income and, if taken before age fifty-nine-and-one-half, may be subject to a 10 percent federal income tax penalty. Generally, once you reach age seventy-and-one-half, you must begin taking required minimum distributions.

Standard & Poor's 500 Index (S&P 500)
An average calculated by summing the prices of 500 leading companies in leading industries of the U.S. economy and dividing the sum by a divisor that is regularly adjusted to account for stock splits, spinoffs, or similar structural changes. Index performance is not indicative of the past performance of a particular investment. Past performance does not guarantee future results. Individuals cannot invest directly in an index.

Stock

An equity investment in a company. Stockholders own a share of the company and are entitled to any dividends and financial participation in company growth. They also have the right to vote on the company's board of directors. Keep in mind that the return and principal value of stock prices will fluctuate as market conditions change. And shares, when sold, may be worth more or less than their original cost.

Stock Certificate

A legal document that certifies ownership of a specific number of shares of stock in a corporation. In many transactions, the stockholder is registered electronically, and no certificate is issued.

Stock Split

A decision by a company to increase the number of shares of stock it has outstanding by issuing more shares to its current shareholders. For example, in a two-for-one split, each shareholder would receive as many new shares as he or she owns—effectively doubling the number of shares he or she owns. The price per share adjusts to account for the split. In the example of a two-for-one split, each of the new shares would have a par value of half the prior price.

Tax Credit

A credit subtracted from income taxes after preliminary tax liability has been calculated.

Tax Deduction

An amount that can be subtracted from a taxpayer's income before taxes are calculated. Taxpayers may use the standard deduction or may itemize deductions if allowable itemized deductions exceed the standard deduction.

Tax-Deferred
A condition of certain plans and accounts under which the funds in the plan or account—along with any accrued interest, dividends, or other capital gains—are not subject to taxes until the funds are withdrawn.

Tax-Exempt Bonds
Debt securities issued by a state, county, city, or other political entity (such as a school district) that generate income which is exempt from federal income taxes. Income from such bonds may also be exempt from state income taxes in the state in which the bond is issued. However, some tax-exempt bonds may be subject to the federal alternative minimum tax. Bond prices rise and fall daily. Municipal bonds are subject to a variety of risks, including adjustments in interest rates, call risk, market conditions, and default risk. When interest rates rise, bond prices generally will fall. Certain municipal bonds may be difficult to sell. A municipal bond issuer may be unable to make interest or principal payments, which may lead to the issuer defaulting on the bond. If this occurs, the municipal bond may have little or no value. If a bond is purchased at a premium, it may result in realized losses. It's possible that the interest on a municipal bond may be determined to be taxable after purchase.

Taxable Income
A taxpayer's gross income, minus any adjustments, itemized deductions or the standard deduction, and personal exemptions. Taxable income is used to compute tax liability.

Technical Analysis

A method of evaluating securities by examining recent price movements and trends in an attempt to identify patterns that can suggest future activity. Generally, technical analysis is the opposite of fundamental analysis.

Tenancy in Common

A form of property ownership under which two or more people have an undivided interest in the property and in which the interest of a deceased owner passes to his or her beneficiaries rather than to the surviving owners.

Term Insurance

Life insurance that provides coverage for a specific period. If the policyholder dies during that time, his or her beneficiaries receive the benefit from the policy. If the policyholder outlives the term of the policy, it is no longer in effect. Several factors will affect the cost and availability of life insurance, including age, health, and the type and amount of insurance purchased. Life insurance policies have expenses, including mortality and other charges. If a policy is surrendered prematurely, the policyholder also may pay surrender charges and have income tax implications. You should consider determining whether you are insurable before implementing a strategy involving life insurance. Any guarantees associated with a policy are dependent on the ability of the issuing insurance company to continue making claim payments.

Testamentary Trust

A trust created by a will or trust that is established on the death of the trustor. Using a trust involves a complex set of tax rules and regulations. Before moving forward with a trust, consider working with a professional who is familiar with the rules and regulations.

Time Horizon
The amount of time an investor plans to hold an investment or portfolio of investments.

Title
A legal document that serves as evidence of ownership of an asset or security.

Total Return
The total of all earnings from an investment or portfolio, including both capital appreciation and any income received.

Treasury Securities
Debt securities issued by the United States government. Treasury bills normally have maturities of less than one year, while Treasury notes have maturities between one and ten years, and Treasury bonds have maturities between ten and thirty years. U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest. However, if you sell a Treasury security prior to maturity, it could be worth more or less than the original price paid.

Trust
A trust is a legal arrangement creating a separate entity that can own property and is managed for the benefit of a beneficiary. A living trust is created while its grantor is still alive. A testamentary trust is created upon the grantor's death—usually by another trust or by a will. Using a trust involves a complex set of tax rules and regulations. Before

moving forward with a trust, consider working with a professional who is familiar with the rules and regulations.

Trustee
An individual, corporation, or other entity that manages property held in a trust.

Trustee-to-Trustee Transfer
A means for transferring assets from one qualified retirement program to another without triggering a taxable event.

Uniform Gift to Minors Act (UGMA)
An act available in some states that allows assets to be held in a custodian's name for the benefit of a minor without the need to set up a trust. Once the child to whom the assets have been gifted reaches the age of maturity in his or her state, the assets become his or her property and can be used for any purpose.

Universal Life Insurance
Permanent life insurance that allows the policyholder to vary the amount and timing of premiums and, by extension, the death benefit. Universal life insurance policies accumulate cash value that grows tax-deferred. Several factors will affect the cost and availability of life insurance, including age, health, and the type and amount of insurance purchased. Life insurance policies have expenses, including mortality and other charges. If a policy is surrendered prematurely, the policyholder also may pay surrender charges and have income tax implications. You should consider determining whether you are insurable before implementing a strategy involving life insurance. Any guarantees associated with a policy are dependent on the ability of the issuing insurance company to continue making claim payments.

Unlimited Marital Deduction
A provision of the tax code that allows an individual to transfer an unlimited amount of assets to his or her spouse at any time—including upon the individual's death—without triggering a tax liability.

Variable Interest Rate
An interest rate that moves up and down with a specific measure or index, such as current money market rates or a lender's cost of funds.

Variable Universal Life Insurance
Permanent life insurance that allows the policyholder to vary the amount and timing of premiums and, by extension, the death benefit. Universal life insurance policies accumulate cash value that grows tax-deferred. Within certain limits, policyholders can direct how this cash value will be allocated among subaccounts offered within the policy. Several factors will affect the cost and availability of life insurance, including age, health, and the type and amount of insurance purchased. Life insurance policies have expenses, including mortality and other charges. If a policy is surrendered prematurely, the policyholder also may pay surrender charges and have income tax implications. You should consider determining whether you are insurable before implementing a strategy involving life insurance. Any guarantees associated with a policy are dependent on the ability of the issuing insurance company to continue making claim payments.

Volatility
A measure of the range of potential fluctuations in a security's value. A higher volatility means the security's value can

potentially fluctuate over a larger range of potential outcomes—up and down.

Whole Life Insurance
Permanent life insurance with fixed premiums and death benefit. Whole life insurance policies accumulate cash value that grows tax-deferred. Several factors will affect the cost and availability of life insurance, including age, health, and the type and amount of insurance purchased. Life insurance policies have expenses, including mortality and other charges. If a policy is surrendered prematurely, the policyholder also may pay surrender charges and have income tax implications. You should consider determining whether you are insurable before implementing a strategy involving life insurance. Any guarantees associated with a policy are dependent on the ability of the issuing insurance company to continue making claim payments.

Will
A legal document by which an individual or a couple identifies their wishes regarding the distribution of their assets after death as well as the guardianship of any minor children. A will is used in the probate process.

Yield
A measure of the performance of an investment. Yield is calculated by dividing the income received from an investment by the investment's initial cost. Yield differs from rate of return in that it accounts only for income; rate of return also includes appreciation or depreciation in the value of the investment.

Zero-Coupon Bond

A bond that does not pay interest during its life. Zero-coupon bonds are purchased at a discount from their face value. When a zero-coupon bond matures, the investor receives the face value of the bond. The market value of a bond will fluctuate with changes in interest rates. As rates rise, the value of existing bonds typically falls. If an investor sells a bond before maturity, it may be worth more or less than the initial purchase price. By holding a bond to maturity, an investor will receive the interest payments due plus his or her original principal, barring default by the issuer. Investments seeking to achieve higher yields also involve a higher degree of risk. Bond prices rise and fall daily. Bonds are subject to a variety of risks, including adjustments in interest rates, call risk, market conditions, and default risk. When interest rates rise, bond prices generally will fall. Certain municipal bonds may be difficult to sell. A bond issuer may be unable to make interest or principal payments, which may lead to the issuer defaulting on the bond. If this occurs, the bond may have little or no value. If a bond is purchased at a premium, it may result in realized losses. It's possible that the interest on a municipal bond may be determined to be taxable after purchase.