CAMARDA INVESTOR EDUCATION SERIES

The 9 Retirement Traps That Could Ruin Your Life

Why & How to Protect Your Retirement Income Now

Camarda Wealth
ADVISORY GROUP

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The 9 Retirement Traps That Could Ruin Your Life: Why & How To Protect Your Retirement Income Now

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What's your number?

When most folks worry about retirement, the biggest concern seems to be having enough money to sustain their current lifestyle. Will my assets be sufficient to supplement income sources like pensions and Social Security? Will I outlive my money? Will my investment returns keep up with inflation? And so on.

Those are all good questions and finding out "your number" is very important. However, since hundreds of other authors have dealt with these issues, we won't dwell on them here. Instead, we'll focus on the hidden – but very real and hazardous – dangers that most people face in retirement, but usually don't think about, often until it is too late. Equally disturbingly, many financial advisors, as well as lawyers and estate planners, often overlook them, too. Here's your chance to learn what actions you need to take to secure your retirement from these hidden dangers that could easily derail it.

#1 – Pretending Inflation Will Be Benign

Price inflation has been quite tame in the US since the mid-80's and many people have almost forgot about it. But back in the 70's, when inflation was raging, it was a major factor in every financial decision, and was devastating for those on a fixed income. Because we've gotten spoiled by relatively low inflation era beginning in the 80's, most of us don't factor rising prices into our financial planning. If inflation gets "real" again, as many predict, the whole retirement savings game could change.

Going forward, ignoring the impact of inflation is probably a big mistake, as the massive world-wide stimulus in the wake of the Great Recession will likely drive inflation to dangerous levels in the US, as well as the rest of the world – eventually. The odds are strong that inflation is coming and may be truly ugly given the trillions in stimulus money it will have to soak up. Make no mistake: many believe that our government's stimulus "money printing" measures since 2008 were all that stood between us and a true Depression, but still, the piper is waiting to be paid.

In an inflationary environment, "safe" investments like bank accounts, bonds, and fixed annuities can spell disaster, dropping in real value, and paying an interest rate that never seems to keep up with rising prices. That means that every year you have less money even if you don't spend a dime! After taxes are considered, you can really get hammered.

Another thing to be aware of is that the overall inflation rate might not be your particular inflation rate. The cost of health care is expected to continue to rise *much* faster than other items, and this is particularly true for long term care. Also, if you are hoping to help a grandchild with college expenses, know that college costs are raising over twice as fast as most other costs.

If the predicted mega-inflation comes to pass, the risk is that you may not be able to continue living your current lifestyle. In fact, it is possible you could run out of money just trying to keep up with what is necessary. So, how can you guard against inflation-driven purchasing power erosion? Consider reducing your exposure to investments, like those described, that lose real value during inflationary periods. Instead, invest in things with anti-inflationary properties or you could find yourself getting further behind instead of ahead. Equity investments – typically stocks, real estate, and small businesses – are often considered to fit this bill. If you take us up on a free consultation, be sure to ask for my report ***The 9 Biggest Investment Dangers and How to Avoid Them***, which you may find very helpful in this regard.

#2 – The Tax Timebomb

The tax timebomb is twofold, the nation's and yours. No matter what side of the political fence you are on, you probably believe that government spending cannot continue on its present pace at the current tax revenue levels. So, while spending may even go down, it is unlikely it will be reduced enough to end the deficit, not to

mention paying down the national debt. Part of the solution is highly likely going to be higher taxes. And if you are someone who is at the upper end of the affluence ladder, you are likely to one of the ones paying more taxes, whether you're working or retired. Long before the fiscal strains of the Great Recession and the nouveau-social programs trends of recent years, the country has been facing down a budget crisis of colossal proportions. Ever since the beginning of Social Security, America's been ticking down to a day of reckoning, and the Great Society programs like Medicare/Medicaid and the 2008 economic blowout have quickened the pace.

The math is simple – when Social Security was born, the retired population was a relatively small fraction of the whole, life expectancy was short, so retirement benefits were not paid for long, and there were plenty of workers paying FICA taxes into the system to fund benefits. In the near-century since, all of these trends have reversed – fewer workers paying, more retirees drawing, and people living and collecting far longer than FDR ever dreamed. Back then, the retirement age was 62, life expectancy was 63, and the intent was not to provide a pension but a retirement supplement for the Depression-impoverished. It has ballooned since. Add the costs of the financial meltdown, a decade (and counting) of wars, and recent new social programs, and the country is running short in a very big way, so big that many think it likely that US Treasury bonds will lose their prized zero-risk credit rating. I emphasize that this is not intended as political commentary, but as economic analysis. Regardless of how one feels about the underlying reasons, it is the numbers that matter.

Again, the short of all this is that taxes will very probably go up. If you are rich enough to care about what's in this report, you will probably – many would argue necessarily – be targeted as a high-value pocket to fund America's deficits. What's worse, IRA's, annuities, and other "retirement" assets have some of the highest tax burdens of any investment asset – and are taxed at the highest rates, which are likely to go sharply higher. Too many people fail to plan for taxes in their retirement spending. That can be a serious mistake. The good news is that you do have some strategies to employ that can reduce future taxes and give you more flexibility to manage them.

3 The Guardianship Sinkhole

Avoiding dependence on our children ranks as one of retirees' very worst fears. No one wants to be a financial burden on their children especially when so many young families are struggling to achieve financial security themselves. But what retirees should fear more than dependency is guardianship. Guardianship is where a court appoints someone else to take the legal responsibility to manage your assets and make decisions for you. Unless you have planned to avoid guardianship, it can become required if you ever get to the point where you cannot manage your affairs, typically from cognitive ailments like Alzheimer's, or other disabling accidents or conditions.

Guardianship is a big problem for many reasons. The procedure is expensive and demeaning, requiring that you be proven legally incompetent, often while you are forced to look on. Once you are stripped of power and responsibility for your own affairs and the guardianship is in place, the appointed guardian, (selected by a judge– not you or your family!), is tightly managed by the court. This in itself costs an amazing amount of money and hassle for you and your dependents. In short, guardianship is a thoroughly unpleasant and needlessly expensive mess.

Without proper planning, guardianship is a very easy mess to fall into. Fortunately, it can easily be avoided with common estate planning devices such as powers of attorney and living trusts. In my view, living trusts are far superior because they give you more flexibility and precision in controlling your estate and can help protect your heirs from lawsuits and other financial predators. Living trusts are also much more acceptable to banks, brokerages, and other custodians of your money; powers of attorney can often be rejected by asset custodians, who in the worst cases must be sued to recognize them, which can take a long time, during which you

may be very uncomfortable. Living trusts not only allow much more effective estate planning, but can save their cost many, many times over by avoiding needless probate fees and loss of control.

4 The Catch 22 of a Long, Healthy Life…

Most of us want to live a long time, or at least as long as we feel good and take pleasure from life. Modern times are a fortunate time to feel this way, as lifestyle changes and rapidly advancing medical technology have extended life expectancies far beyond even those dreamed by science fiction writers just a few decades ago. Unfortunately, the dark flipside of this happy fact is that today's retirees need a much larger stockpile of funds to support long payout periods. The cold equations of time and money yield the uncomfortable truth that many of us may not have saved enough, or invested profitably enough, to provide for a comfortable lifestyle for the long years of an extended retirement, even before the high costs of medical treatments to extend life even further are considered. Many investors – and most advisors who serve them – haven't properly prepared to build and manage a nest egg that might have to last 35 or more years from retirement.

The pile of capital needed to pay for a retirement lasting from age 65 to one's early 70's is one thing – one can easily plan on consuming a measured amount of principal each year to accomplish this in style. It is quite another to plan the cash flow for a retirement stretching into one's 80's 90's or even beyond. In this case consuming principal could be devastating; the longer the payout period, the more dependant retires are on just living off just the "interest" or other investment returns. As many of you have noticed, getting dependable returns without risk has become extremely challenging since 2007.

It gets even more challenging when the trends toward increasing taxes and reduced Social Security are considered. Since you will probably live much longer than any of your ancestors, you may well face the risk of running out of money with many years of life left. The time to plan for this is now! It begins with a sober assessment of what you can safely accomplish in terms of lifestyle budget over your realistic life expectancy. Critical factors are prudent risk control, meaningful investment returns, and hard-nosed tax control, along with serious countermeasures against the other risks highlighted in this report.

5 Irrational Investing: Shooting for the Moon, or Hiding Under the Mattress

Speaking of meaningful investment returns, in our experience most retirees – and near-retirees – tend to take either too much risk or not enough. Both can lead to disaster. Too-little risk – the stuff-it-under-the-mattress mentality, focusing on CD's, bank accounts, bonds, guaranteed annuities, and the like – will nearly certainly not produce enough of a return to offset taxes and inflation, let alone generate enough income to keep principal intact long enough to fund an extended lifetime. The fact that interest rates have been nearly at zero for years is probably very well known to readers. On the other hand, taking too much risk can lead to obvious heartbreak as money is lost on unwise investments – as was evident in the 2008 meltdown, and in the many dips since. If you have to fund your retirement from the reduced principal amount, you can be setting yourself up for hardship and further risky behavior – and nearly depleted funds far too early in retirement.

Whether too little or too much risk, both paths can lead to shrunken assets and constrained lifestyles. What is particularly dangerous about each of these mindsets is that they seem perfectly reasonable to those who adopt them. Mattress-stuffers believe that this is the only safe, responsible way to protect their money and are oblivious to the rich returns that could otherwise be attained. The moon-shooters never seem to recognize their folly, thinking their bets are prudent. At least until the money's gone.

To make your retirement years truly secure, you need to strike the right balance between safety and risk and find the "Goldilocks" investment mix that's best for you – then stick to it. Later in this report, you will see how to get our help with this at no cost or obligation.

6 Amateur Estate Planning

I'm not talking about wills and trusts prepared by specialized estate attorneys. I'm more concerned about the do-it-yourself variety that can have unforeseen consequences that can be devastating. Below are a couple of quick examples among many. My objective is not to cover them all, but encourage you seek advice from a competent estate planner. If you decide to take us up on our free offers mentioned below and want some guidance in this area, we will be very happy to provide it. This is such an important part of your overall plan!

A big mistake is putting bank and brokerage accounts in joint names with your children. This is not the best way to leave money to them when you die. Use POD designations or wills/trusts instead. One reason is simple: If your child is sued, goes through a divorce, or has another legal issue – auto accident, for instance – accounts so titled are on the table and could be lost to both you and your child. Beyond this, there control, divorce risk, and other pitfalls to avoid.

Another mistake is not using a living trust – combined with a proper power of attorney – where you have a lot of your family's assets on which you depend for retirement income in one spouse's name, like in an IRA or 401(k). These accounts can't be titled in joint names. If, for example, your spouse loses competency and a judge appoints a guardian, there is no assurance that the guardian is going to see that your needs are met. His or her duty lies elsewhere. There are many other dangers that can lead to being locked out of important retirement assets, but the cure is simple – get a proper estate plan. In many cases, the cost of the work will be returned dozens – if not hundreds – of times in saved probate costs and taxes, not to mention the inestimable value of dodging the kind of bullets we've been discussing here. And if you are concerned about asset protection from financial predators – and you should be! – estate planning is a very effect time to address this as well. If we get a chance to sit down with you sometime, ask for a copy of my ***Advanced Asset Protection for Successful Families*** report – with my compliments!

7 Ignoring Your Spouse's Need for Long Term Care….

There's been lots of discussion about long term care in recent years, and for good reason, as this is a very important and expensive issue especially when we consider the possibility that you will live a long time. You should review your own needs in this regard, but my emphasis here is not your care, but on your spouse's needs. Here are the facts: as long as Medicare lasts in its current guise, it will pay for decent long-term care for those who need it. But the catch is that "needing it" means that your joint assets have been spent down to the poverty level. That means that you – and only you – are responsible for the costs of your spouse's care until the money's nearly gone. That could leave you without adequate funds to support yourself, and could even push you toward the poverty line, whether you need care or not. Take note: existing Medicaid laws require most couples' assets to be completely drained before paying for long term care.

Given the current debt issues in the United States, it is likely these laws will get even tougher. Fortunately, you can deal with this issue by using insurance and some more advanced estate planning techniques. The time to plan is now, before the dice break the wrong way and before your retirement dreams are potentially shattered.

8 The Devastation of "Mature" Divorce

In the "best" of times, divorce is expensive. Without proper planning, divorce can completely devastate retirement plans for one or both spouses, especially if it happens late in life. Depending on the settlement, one spouse can become almost destitute, and even with fair divisions of assets and alimony, resources can be stretched too thin to allow either divorcée much comfort. To make matters worse, the laws of most states require that a

spouse at most receive only 1/3 of the other spouse's assets at when that spouse dies, and one never knows if one's spouse's *last* will and testament leaves everything to them, since there is no requirement that this document be shown to the other spouse, or even made known to them.

Fortunately, while your marriage is still happy – or at least civil – this risk can be controlled quite easily as part of your estate planning, by using irrevocable beneficiaries and trust provisions and the like, to craft an effective post-nuptial agreement. By entwining your children's interests (whether yours, theirs, or both of yours) into this structure, you can make this seem far less self-serving, although the protections will benefit your spouse as well as you. Obviously, the time to do this is when all is well and both parties are amenable – and still alive! Once storm clouds gather, it can be more difficult. If divorce does threaten, be sure to engage the advice of a good divorce planner or attorney early on – the emotional gumbo that usually accompanies a failing relationship is sure to obscure one's judgment. Many who have cut deals without professional assistance come to deeply regret their generosity later, when it is too late to change things – or recover income that may be desperately needed for retirement.

9 Failure to Plan for Loss of Pensions and Other Benefits

The final danger (for this reading at least!) is that presented by "single-life-only" pension payouts. Usually when someone takes a pension, they choose from a variety of payout options, and the monthly amount depends on the option taken. For instance, a plan that pays so long as I live only will net a larger monthly payment than one that pays as long as me or my spouse are alive, for the reasons we discussed in Danger # 4: the longer the life expectancy the smaller the annual payout, and the life expectancy of two people is longer than for either alone. One that pays x for my life and ½ x ("joint and 50% survivor") to my spouse for her life if I die will have a monthly amount somewhere between the single life only and joint and 100% survivor options.

In many instances, we see pensions based on single life only selected because it paid the "most," without enough thought given to the consequences to the survivor if the pensioner dies first. In many cases, this represents the lion's share of the couple's income, and the consequences can be devastating if the spouse with the pension dies. For many couples this issue is a very big deal.

If one of you has a pension and has not yet made the election, plan long and hard with a competent, unbiased advisor working the numbers. In many cases, you will be better off taking a lower monthly income but getting survivor benefits.

If your pension is already paying out, you probably can't change the payout option. In this case, you will want to earmark some assets – or consider life insurance – to provide a rainy-day fund to guard against the day the pension may stop. In most cases, we prefer term insurance since the insurance does not need to last forever to provide adequate protection. The goal is to make sure the assets are large enough to fund the survivor's lifestyle from that point. Since in most cases the female has the longer life expectancy, and the male the larger pension, the risk of sharp income curtailment to the widow is quite severe – and should be very carefully addressed in portfolio and other asset planning.

Take Heart!

While this report has made some perhaps unpleasant observations focusing on these often-overlooked risks, it can possibly save you much heartache. We hope it has been helpful to you. Good luck, and long and prosperous retirement to you!

-Jeff Camarda

IMPORTANT DISCLOSURE INFORMATION

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A copy of the Camarda's current written disclosure Brochure discussing our advisory services and fees continues to remain available upon request.

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