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WEALTH MANAGEMENT
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Did The Devil Make You Do It? 8 Retirement Miscues

We're all human, and we all make mistakes. Yet some errors are worse than others, and it's important to try to avoid the kinds of miscues that could derail your retirement.

What sort of mistakes? Of course, these will vary from person to person, but here are eight common foul-ups that often bedevil soon- to-be retirees:

Mistake #1—You have no financial plan for retirement.

Although your plan doesn't have to be carved in stone—and in fact it needs to be flexible—it at least should provide some basic guidelines for your future. A bare-bones plan will look at your potential sources of retirement income and approximate what you can expect to spend—and rough estimates are better than no estimates at all. Figuring out what it may take to live comfortably during retirement is the first step toward getting there.

Mistake #2—You have too much debt.

Perhaps nothing can be more damaging to successful retirement than crushing debt. Avoiding high-interest-rate credit card charges can help you head off the problem. If you spend within your means and borrow judiciously, you'll be able to save more for retirement and won't be burdened by the need to pay off compounding debt.

Mistake #3—You sacrifice retirement planning for education planning.

Saving money for your children's college education is obviously a lofty and worthwhile goal, and starting early can help ease your financial burden when tuition bills come due. But you may not want to make education saving your primary financial priority. Often, parents are able to help pay college bills while still putting away money for retirement, and your kids can help by taking low-interest loans to cover part of their costs.

Mistake #4—You don't keep an emergency fund.

Even if you've been diligent about saving for retirement, remember to expect the unexpected. You might lose your job or face another financial or medical emergency, and having a cash cushion to fall back on can help you avoid dipping into retirement funds—an option that could have short- and long-term tax and financial consequences. The usual rule of thumb is to try to set aside at least six months worth of salary in a rainy day fund.

Mistake #5—You don't have a long-term investment strategy.

You're likely to fare better if you establish a long-range investment plan for retirement rather than trying to boost your portfolio by chasing hot stocks. Time-tested principles such as asset allocation and diversification can help you make steady progress toward your goals, whereas playing investment

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Meet Our New Director Of Research & Analytics

In December of 2014, we welcomed Marty Pereira, Certified Financial Planner® (CFP®) to the Partners Wealth Management team as our Director of Research & Analytics. Marty comes with a long and fulfilling career providing planning services and financial confidence to individuals and their families. Beneficiaries of Marty's financial planning and investment consulting services include business owners, Fortune 500 executives, doctors, divorced/widowed women and professional athletes.

In addition to providing investment and personal financial planning services in the past, Marty was a CPA tax professional for one of the top accounting and financial services firms in the world, Ernst & Young; Chief Financial Officer and Chief Operating Officer of a $20 million specialty services business; individual online trader of derivatives (futures contracts & listed options); and most recently, a Financial Advisor with Morgan Stanley Wealth Management in Chicago's loop.

Marty earned a Master of Science degree in Accounting from the University of Rhode Island. He is a Registered Representative and Investment Advisor Representative with NFP Advisor Services, LLC, holding his Series 7: FINRA General Securities Representative, Series 65: FINRA Uniform Investment Advisor Law Examination, and Series 66: FINRA Uniform Combined Securities Agent and Investment Advisor State Law Exam licenses. Marty is also licensed to advise on insurance and annuity products in the state of IL.

John

Unused Estate Tax Election

"DSUEA" sounds like a top-secret agency inside the government. But that's not even close. It's actually the acronym for "deceased spouse unused exclusion amount," a key component of the portability provision in the federal estate tax law.

It's important to understand how the DSUEA is calculated and how portability can save a family hundreds of thousands—or possibly even millions—of estate tax dollars.

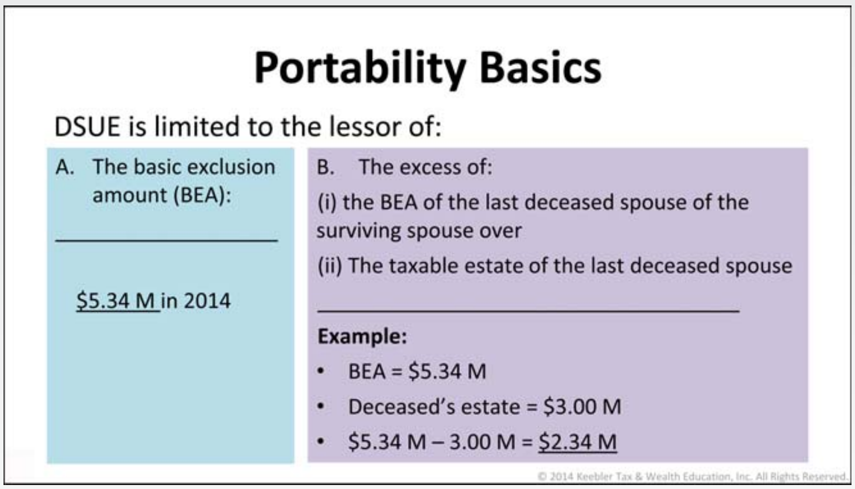
Consider the basic federal estate tax framework. For starters, there's an unlimited marital deduction between spouses. Any amount that's transferred from one spouse to another, whether through a bequest or a lifetime gift, is automatically exempt from estate and gift taxes. In addition, each person's estate can benefit from an exemption for transfers to heirs other than a spouse.

Under the latest tax law changes, the estate tax exemption is permanently fixed at an inflation-adjusted amount based on $5 million. The "basic exclusion amount" (BEA) for 2014 is $5.34 million and increases to $5.43 million in 2015. That allows a married couple to transfer up to $10.77 million to other heirs in 2015, and that amount will be even higher in future years.

The basic premise behind portability is quite simple. When one spouse dies, any unused BEA amount is available to the estate of his or her surviving spouse. Normally a surviving spouse will be able to add the deceased spouse's unused exclusion amount to his or her maximum exempt amount.

Hypothetical example: Susan and Jim, husband and wife, own $3 million individually and $4 million jointly with rights of survivorship. (For simplicity, we will avoid any gains or losses in the value of the assets.) That adds up to a combined estate of $10 million. Their wills specify that their individually owned assets will go to their children when each parent dies.

Now suppose that Susan died in 2014 when the BEA was $5.34 million. Under the tax law formula (see chart), the DSUEA is limited to the lesser of (a) the BEA and (b) the excess of (i) the BEA of the last deceased spouse over (ii) the taxable estate of the last deceased spouse. In the example involving Susan and Jim, the DSUEA is $2.34 million. Therefore, when Jim dies, his estate will be able to utilize the $2.34 million DSUEA—plus the BEA available to Jim in the year of his death.



How much tax will that save? With a 40% top estate tax rate, the savings on the $2.24 million DSUEA is $936,000 ($2.34 million x 40%)!

To take advantage of the portability provision your heirs must make an election on an estate tax return. Coordinate this estate tax break with other aspects of your overall estate plan. ●

What's The Step-Up In Basis Worth?

When you're developing an estate plan for your family, several elements factor into the equation, including a lot of tax ramifications—which may include both estate taxes *and* income taxes. They're not mutually exclusive and, in fact, they're often intertwined.

A case in point is the so-called "step-up in basis" on inherited assets. That can be a reason to keep some assets in your estate rather than trying to reduce the estate's value.

Slimming down an estate, particularly by making gifts to family members during your lifetime, is often a good idea. However, there's a marital deduction that normally allows you to leave unlimited assets to your spouse free of estate tax, while transfers to other heirs are sheltered by a generous individual estate tax exemption that's inflation-indexed. Each person can shield $5.43 million from estate and gift taxes in 2015, up from $5.34 million in 2014.

Meanwhile, if you sell real estate or other assets before you die, you'll owe capital gains tax on your profits. The maximum tax rate on a long-term gain (on assets you've held longer than a year) is 15%, or 20% for investors in the top ordinary income tax bracket. In addition, you may be liable for a 3.8% surtax on net investment income (NII), including capital gains, that exceeds an annual threshold. That adds up to a possible effective tax rate of 23.8% on capital gains at the federal level.

But if you bequeath appreciated assets to your heirs, they can largely avoid capital gains taxes. Those taxes are calculated according to how much the price has gone up from your "basis" in the asset—basically what you paid for it, subject to adjustment. When you die, the basis of the assets your heirs receive is "stepped up"—increased to their value on the date of your death. That eliminates tax liability on the appreciation of the assets during

4 Of The Main Reasons To Keep Your Bypass Trust

For decades, the bypass trust was a common staple of family estate plans. But it appeared that this tool might become a relic of days gone by after the American Taxpayer Relief Act of 2012 (ATRA) preserved the "portability" provision of the estate tax law. Because of this provision, a bypass trust no longer was needed to ensure that each spouse in a marriage could maximize his or her estate tax exemption.

Yet even today, the bypass trust remains a viable estate planning option. Consider the following background on how bypass trusts can help and four reasons why you might keep such a trust as part of your estate plan:

What Is a Bypass Trust?

A bypass trust (also called a "credit shelter trust") is established so that assets you leave to your family will bypass your spouse's estate on their way to your children. That way, the trust can use the full estate tax exemption to which each person is entitled. Without a bypass trust, some or all of the assets from the first spouse to die might go to the other spouse, and though there's usually no tax on an inheritance between spouses, the second spouse to die then would have both spouses' assets and only one individual exemption to shield that money from federal estate taxes.

Typically, each spouse might include a provision in his or her will that sets up a trust for the surviving spouse's benefit, and funds it with the equivalent of the deceased spouse's basic exemption amount (BEA). Then, when the surviving spouse dies, the remaining assets go to the kids. As long as the trust is structured properly, this arrangement may avoid estate tax by utilizing the estate tax exemptions of both spouses.

Under ATRA, the BEA is set at a generous level, subject to annual indexing for inflation, and the exempt amount in 2014—$5.34 million—rises to $5.43 million in 2015.

The law's so-called portability provision, established in 2010 and then permanently extended by ATRA, seems to accomplish much of what you'd create a bypass trust to do. Any part of your exemption that you don't use can be added to your spouse's exemption, letting the two of you avoid estate taxes on a total of nearly $11 million. This works no matter who dies first or how you split your assets.

Yet even though portability may eliminate one reason for establishing a bypass trust, other reasons remain. Here are four of the main considerations:

Four Protections of a Bypass Trust

1. Asset protection. Normally, assets that are owned by a surviving spouse become fair game for creditors. What can make the situation even more frustrating for family members is that assets might be siphoned off to help pay the debts of someone who marries the surviving spouse. However, a bypass trust protects the assets from the clutches of creditors, while keeping them safe from lawsuits.

2. Bloodline protection. This isn't as ominous as it sounds. You're not actually trying to preserve your family's bloodlines—you're just using a bypass trust to safeguard the interests of family members to whom you want to leave part of your estate. Although your, and your spouse's wills could name your children as "successor beneficiaries" (to inherit when both of you have died) your intentions could change, especially if the surviving spouse eventually remarries. Without a trust, there's no guarantee that the children of the initial marriage will receive their fair share of the spoils when the surviving parent dies. With a bypass trust, you can arrange for the assets to pass to your children, regardless of future marriages.

3. Spendthrift protection. Remarriage isn't the only financial concern of a married couple. Assets can be squandered through their children's free-spending ways, or the children might assign their interests in your estate to spouses or others. Including a spendthrift provision in a bypass trust can guard against these potential dangers, while still allowing the assets to be used in a reasonable manner.

4. Power of appointment. A bypass trust can provide greater flexibility by granting a power of appointment to the surviving spouse. This gives the survivor the ability to use the trust assets for his or her health, education, maintenance, or support. Rather than granting a broad "general power" of appointment, it's usually better to provide a "limited power," permitting the beneficiary to allocate only his or her share of the trust among potential recipients.

This list isn't all-inclusive. Other possible reasons for using a bypass trust include maximizing the benefits of the generation-skipping tax (GST) exemption for gifts to grandchildren (the GST exemption is not portable), accounting for state inheritance laws and taxes, creating additional protection for especially large estates that are appreciating in value, and planning for Medicaid eligibility.

With all of this in mind, you may not want to skip over the bypass trust. Consider the entire spectrum of benefits it might provide in your situation. ●

the time you owned them. Of course, those assets have to be in your estate to qualify for that benefit, but the generous exemptions for estates will help your heirs avoid estate taxes, too.

Consider this example. Tom, a resident of Florida, bought an apartment building for $900,000 that is currently worth $2.2 million. If Tom sells the building now, he must pay an effective tax rate of 23.8% on a $1.3 million capital gain, or $309,400 (23.8% of $1.3 million). But what if he keeps the property and leaves it to his heirs? The basis of the property is stepped up to the full $2.2 million, and they'll owe capital gains taxes only if it appreciates further before they sell it. What's more, the estate tax exemption means they won't owe estate taxes on their inheritance.

Note that Florida doesn't have a state income tax. If Tom resided in a high tax state, such as California or New York, the savings would be even more pronounced. ●

Getting Immediate Financial Results

For many people, the main attraction of an annuity may be that it lets them have guaranteed payments in the future when they expect to be in a lower tax bracket than they are now. With a classic tax-deferred annuity, your money compounds without taxes until you truly need it. But in some circumstances, another kind of annuity—a single-premium immediate annuity (SPIA)—may be a better alternative. As the name implies, the provider, which usually is an insurance company, begins cash payments to you right away. That could be a plus if you've already retired or expect to retire in the near future.

When you purchase a SPIA, you're generally counting on a continuous stream of income that can help pay monthly bills or other costs during your retirement. You simply give the insurance company that single premium and then sit back and wait for the checks to roll in. Typically, they will start arriving within a month.

Depending on the option you select, the money will keep coming either for a specified term or for the rest of your life. A SPIA often is viewed as a complement to investment income, distributions from employer retirement plans and IRAs, and Social Security benefits that can help sustain you throughout your retirement years.

How do you choose a SPIA? There are numerous factors to consider. Naturally, you'll be looking for a favorable interest rate. Once you decide on the payout option, it will be easier to compare the available rates that different annuities offer. Keep in mind, too, that your payments will depend not only on the amount of your premium but also how long the flow of cash will continue. All other things being equal, the longer the time for payments, the less you'll receive with each check. In other words, you will pocket larger monthly payments if you arrange to receive payments for 10 years than if you opt to get monthly payments over your lifetime (assuming your life expectancy is greater than 10 years).

But you also should compare other aspects of SPIAs, including the ability of the insurer to make good on its promise to pay future benefits. Check thoroughly into the financial strength of the company before making a commitment. One potential way of defraying such risks is to diversify your investments, buying annuities from two or more highly rated insurance companies.

Finally, don't forget about the tax consequences. In essence, tax is due on a portion of the payments in the year the payments are received, and that could require some tax bracket management on your part. For instance, if you're currently in your peak-earning years and expect that your top tax bracket will be lower in the future, a tax-deferred annuity might be a better option. We can provide guidance for your personal situation. ●

8 Retirement Miscues

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hunches is likely to produce more losers than winners. And taking a smart, deliberate approach is as important for investing the assets in tax-sheltered retirement plans, such as 401(k)s and IRAs, as it is for taxable accounts.

Mistake #6—You underestimate health care costs.

As people live longer and longer—and as growth in health care costs continues to outpace overall inflation—you'll need to allocate a healthy portion of your savings to personal care. Often, health insurance plans and Medicare will cover much less than you've counted on and you'll need to use your savings to make up the difference. What's more, an extended stay in a nursing home could destroy your retirement nest egg. Consider buying long-term-care insurance to help ward off future disasters.

Mistake #7—You don't factor in taxes.

People often disregard the impact that federal and state taxes can have on their retirement savings. For instance, if you've been accumulating funds in a 401(k) plan and traditional IRAs, when you withdraw money from those accounts to pay your retirement expenses those distributions normally will be taxed at ordinary income rates. In addition, whether you want to or not, you'll have to start taking money from those accounts after you turn age 70½. Your long-term plan for retirement needs to take these taxes into account.

Mistake #8—You count too heavily on Social Security benefits.

After you've paid into the Social Security system during your working career, it's only fair that you reap the benefits. But those monthly payments usually aren't enough to live on comfortably, not by a long shot. It's important to view Social Security as only a supplement to other sources of retirement income—from your investments, company retirement plans, and IRAs.

Making any of these mistakes could cause trouble when it's time to retire. But if you know what to look out for you may be able to avoid problems—and the best time to start fixing things is now. ●