7 Deadly Sins of Retirement Planning

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GREED

The get rich quick plan

7 Deadly Sins of Retirement Planning

No one can afford to get swindled by a get rich quick scam. Over the years we've seen plenty of folks who've felt unprepared for retirement and out of desperation, are searching for returns that are too good to be true. These folks are more susceptible to being scammed.

The biggest scammer of all time is Bernie Madoff, who pulled off a $50B ponzi scheme. Since he's got some time on his hands (like 150 years left), we use him to help us educate others on how to avoid being scammed:

S

Secret Strategy

When people would ask Bernie how he invested he would say, "Just trust me." That's a red flag! You need to know and understand what the investment strategy is, even if you don't know every detail. Make the advisor explain it regularly.

C

Creative Comp

You could say Bernie's pay was creative. He didn't let those pesky fee agreements keep him from helping himself to whatever fees he wanted. You need to know what the total fees are in the investment, including what the advisor gets paid. We'll come back to that.

A

Advisor First

Make sure the advisor has YOUR best interest in mind, not theirs. Bernie clearly had his interest in mind over the client's. Still today, many advisors will suggest inferior investments because they pay a higher commission. That's an example of putting their interests ahead of yours. Make sure your advisor is a fiduciary, which means they are legally obligated to act in your best interest ahead of their own.

M

Mythical Results

It pays to be sceptical in investing. If something sounds too good to be true (like the story of a client who was told the Iraqi Dinar was revaluing 1,000% higher), it's probably a scam! No investment is perfect. Every legitimate investment has a downside and you need to know what it is.

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MONOGAMY

Married to only one investment

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In marriage, monogamy is wonderful. In investing, monogamy can cost you your retirement.

An unfortunate story comes to mind. We met with someone who worked for PGE. He saved for years by investing his retirement money in the parent corporation of PGE. It helped him build up a nest-egg totalling $500,000.

Then came December 2nd, 2001 - when Enron (The parent company of PGE) declared bankruptcy and the individual lost his entire savings.

In some years like 2008, you'll be glad to have guarantees. In other years like 2017, you'll be glad to have a growth stock portfolio. It's impossible to know what will be the best investment next year.

Our lesson: there are many reasons not to be a one-investment retiree; you should see other investments.

The following chart gives an overview of some commonly used investments.

	INVESTMENT	PROS	CONS
Insurance (Guarantees)	Immediate Annuity Fixed Deferred Annuity Indexed Annuity Variable Annuity Universal or Whole Life	Guar. Income for Life 3.75% Guar. Return 0.0 - 8.25% Growth Tax Deferred Growth Death Benefit for Heirs	Principal Disappears Surrender Charges No Consistency High Fees Insurance, NOT Investment
SMB Portfolios	Conservative Low-cost Funds Moderate Low-cost Funds Growth Stocks	2-4% Non Guar. Targeted Return 4-6% Non Guar. Targeted Return 6-10% Non Guar. Targeted Return	Low Return Moderate Volatility / Risk Increased Volatility
Real Estate	Residential Rental (Single/Multi Family) Commercial	Increasing Value Income Rises with Inflation Long-Term Lease / Stability	Maintenance Costs Management Responsibility Illiquid
Alternative Investments	Gold & Silver Iraqi Dinar Cryptocurrency (Bitcoin)	Inflation Protection Supposed Growth Latest Bandwagon Trend	No Income Re-valuation Scam Insane Volatility

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GLUTTONY

Of the advisor/company

Instead of over-eating, financial advisor gluttony is over-charging. This happens in many different ways.

One example is an advisor who makes a large commission for a couple of hours of paperwork, then never speaks to you again. Another example is some annuity products we've seen with too many hands in the pot. After the insurance company, advisor, and investment company all take their share, the client can be stuck with a fee 3 times the normal amount!

Many people have no idea how much they've paid for investments. This may sound obvious, but one way to avoid paying excessive fees is to ask how much you're paying.

One of our favorite clients came in for an initial meeting, sat down, folded his arms and said, "How much is this costing me right now!" Believe it or not, it's actually rude to yourself not to ask (but you may be able to find a more tactful way to bring it up).

Below are the 3 main ways advisors get paid.

Commission: Financial One-night Stand

Annuity salespeople can receive 3-10% up front. The longer the lock-up, the larger the commission. Mutual Fund salespeople can receive up to 5% up front and the client starts with a loss. Stockbrokers charge a percentage of each trade cost. "Do I need this stock or does he need new clubs?"

Asset-Based Fees: Ongoing relationship

Instead of large up-front commissions, smaller ongoing fees around 1% per year. The only way the fee goes up is if the account grows.

Financial Plan Fee: Do it yourself

Advisors charge an hourly rate for a financial plan. Rates vary, but financial plans are typically thousands of dollars.

APATHY

Income plan done on a napkin

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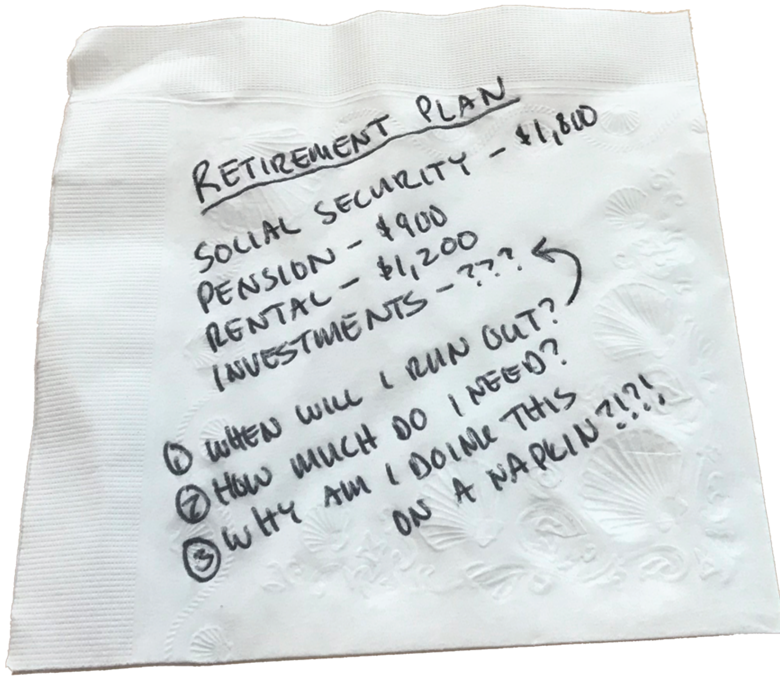
Projecting the income you will live on in retirement is a big deal. You should pay someone to help you or dust off a spreadsheet and work this out. (See our example on the next page)

An income plan helps illustrate what level of income a retiree can expect to have in retirement. We're told it's one of the most helpful tools we offer. Below are the details you'll want to include.



Income Sources:
Kaiser Plan A, Kaiser Plan B, Kaiser TSA, Social Security, Other Pension Income, Investment Income, Real Estate Income, Inheritance, Business Sale, etc.

Estimated Return:
Depends on the investment, but conservative is usually better. We typically use 5%.

Estimated Inflation:
2 or 3%

Withdrawal Rates:
5% + inflation. More withdrawals will deplete principal faster.

An investment calculator is in the footer of our website www.smb.financial

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Income Projection

Kaiser Permanente Employee

January 1st, 2019

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NOT A GUARANTEE OR PROMISE

Current Account Value: $328,000 — Account Value at Retirement $1,000,856

Year	Social Security Bob (Assumed 2% Inflation)	Social Security Judy (Assumed 2% Inflation)	**KAISER PLAN B @ VANGUARD** (Assumed 5% Return, $5.5k contr. until retire)	**KAISER TSA @ VANGUARD** (Assumed 5% return, $10k contr. until retire)	Qualified Income (Assumed 5% withdrawals)	Judy's Roth IRA (Assumed 5% return)	**KAISER PLAN A** (Monthly pension or lump sum)	Rental House ($1.2k/mo. + 2% annual increase)	**Total Retirement Income**
2019	$ -	$ -	$ 150,000	$ 125,000	$ -	$ 53,000	$ -	$ 14,400	**$ -**
2020	$ -	$ -	$ 163,000	$ 141,250	$ -	$ 55,650	$ -	$ 14,688	**$ -**
2021	$ -	$ -	$ 176,650	$ 158,313	$ -	$ 58,433	$ -	$ 14,982	**$ -**
2022	$ -	$ -	$ 190,983	$ 176,228	$ -	$ 61,354	$ -	$ 15,281	**$ -**
2023	$ -	$ -	$ 206,032	$ 195,040	$ -	$ 64,422	$ -	$ 15,587	**$ -**
2024	$ -	$ -	$ 221,833	$ 214,792	$ -	$ 67,643	$ -	$ 15,899	**$ -**
2025	$ -	$ -	$ 238,425	$ 235,531	$ -	$ 71,025	$ -	$ 16,217	**$ -**
2026	$ -	$ -	$ 255,846	$ 257,308	$ -	$ 74,576	$ -	$ 16,541	**$ -**
2027	$ -	$ -	$ 274,138	$ 280,173	$ -	$ 78,305	$ -	$ 16,872	**$ -**
2028	$ -	$ -	$ 293,345	$ 304,182	$ -	$ 82,220	$ -	$ 17,209	**$ -**
2029	$ -	$ -	$ 313,513	$ 329,391	$ -	$ 86,331	$ -	$ 17,554	**$ -**
2030	$ -	$ -	$ 334,688	$ 355,860	$ -	$ 90,648	$ -	$ 17,905	**$ -**
2031	$ -	$ -	$ 356,923	$ 383,653	$ -	$ 95,180	$ -	$ 18,263	**$ -**
2032	$ -	$ -	$ 380,269	$ 412,836	$ -	$ 99,939	$ -	$ 18,628	**$ -**
2033	$ -	$ -	$ 404,782	$ 443,478	$ -	$ 104,936	$ -	$ 19,000	**$ -**
2034	$ -	$ 13,200	$ 425,021	$ 465,652	$ 44,534	$ 110,183	$ 18,000	$ 19,381	**$ 95,114**
2035	$ -	$ 13,464	$ 422,892	$ 465,554	$ 44,422	$ 115,692	$ 18,000	$ 19,768	**$ 95,654**
2036	$ -	$ 13,733	$ 420,715	$ 465,510	$ 44,311	$ 121,477	$ 18,000	$ 20,163	**$ 96,208**
2037	$ -	$ 14,008	$ 418,487	$ 465,522	$ 44,200	$ 127,551	$ 18,000	$ 20,567	**$ 96,775**
2038	$ -	$ 14,288	$ 416,207	$ 465,593	$ 44,090	$ 133,928	$ 18,000	$ 20,978	**$ 97,356**
2039	$ 24,000	$ 14,574	$ 413,870	$ 465,725	$ 43,980	$ 140,625	$ 18,000	$ 21,398	**$ 121,951**
2040	$ 24,480	$ 14,865	$ 411,474	$ 465,922	$ 43,870	$ 147,656	$ 18,000	$ 21,826	**$ 123,041**
2041	$ 24,970	$ 15,163	$ 409,016	$ 466,187	$ 43,760	$ 155,039	$ 18,000	$ 22,262	**$ 124,154**
2042	$ 25,469	$ 15,466	$ 406,493	$ 466,522	$ 43,651	$ 162,791	$ 18,000	$ 22,707	**$ 125,293**
2043	$ 25,978	$ 15,775	$ 403,901	$ 466,932	$ 43,542	$ 170,930	$ 18,000	$ 23,161	**$ 126,457**
2044	$ 26,498	$ 16,091	$ 401,236	$ 467,419	$ 43,433	$ 179,477	$ 18,000	$ 23,625	**$ 127,646**
2045	$ 27,028	$ 16,413	$ 398,496	$ 467,988	$ 43,324	$ 188,451	$ 18,000	$ 24,097	**$ 128,862**

NOT A GUARANTEE OR PROMISE

This is a projection of income based on assumed rates of return consistent with the risk tolerance of the client. Your account values will be different from this projection due to market fluctuations. This is a hypothetical illustration and is in no way a promise or a gaurantee of your account(s). Investments may lose money and principal may be lost. This is for informational purposes only and not to be used as investment planning or advice. Please consult your advisor or SMB Financial Services before acting on any of the information above.

- Income Sources - Accounts - Proposed Retirement Year

SMB Financial Services, Inc. is a Registered Investment Advisor registered in the states of Oregon and Washington.
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OBLIVIOUS

About taxes in retirement

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Planning for how much income you'll have in retirement is a good first step. The next step is to work with your accountant to minimize taxes in retirement.

A friend – and client – owned a large sum of stock in US Bank. On a separate advisor's hasty recommendation, the client sold the stock to purchase an annuity. The result was a tax bill reaching over $10,000!

The surprise tax bill was bad enough, but the kicker was she had limited access to money in her annuity because of surrender charges in place! She was not happy.

Subsequently she moved her investments to us. This was not her fault, and the advisor is likely to blame. This near-sighted suggestion could have been motivated by the commission available.

Don't be oblivious.

Work with an accountant and an advisor. Make sure they work together.

On the right are a few more tips for retirement tax savings.

Work with a CPA 01
Accountants find creative ways to reduce tax

Diversify to ROTH 02
Contribute to a ROTH early, or convert your IRA to a ROTH

Bypass Trust 03
Oregon taxes estates > $1 Million
Bypass Trust can double limit

Move to Low-Tax State 04
FL, NV, SD, TN, TX, WY, AK, NH & WA

DENIAL

It'll never happen to me

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For those of us who've experienced death, disability, or nursing-home care of a loved one, we can no longer deny the seriousness of this issue. The financial impact these events have on a family can be devastating.

It's time to get serious and determine if you have the resources to cover one of these events. We recommend people get quotes from multiple carriers to start the process (not until mid-50s for LTC).

Once you have the quotes, you can decide what (if any) insurance you'd like to apply for, or what areas you'd like to self insure (have no coverage).

Chances of these events happening to you:

DEATH between ages 40 to 65: 1 in 6 *

DISABILITY between ages 40 to 65: 1 in 4 **

LONG-TERM CARE over age 65: 7 in 10 ***

NURSING HOME

$ 7,500 / month (Variables like semi-private vs. private room may increase or decrease cost)

ASSISTED LIVING FACILITY

$ 5,000 / month (Residential Arrangements with some Personal & Medical Care)

Please review the example quotes:

	Coverage:	Total Benefit:	Cost:
Life Insurance: Healthy Individuals Age 45	30 Years	$1,000,000	$170/mo - Female $245/mo - Male
Disability: Healthy Individuals Age 45	5 Years	$4,500/mo	$270/mo - Female $210/mo - Male
Example LTC: Healthy Individuals Age 52 Female & 58 Male	$3,000 each Per month	3 Years = $200,000	$105/mo - Female $145/mo - Male

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NEGLECT

To get organized and create a plan

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In my experience, when clients neglect to get organized it creates trouble for the next generation.

Without an estate plan (including a will or trust) beneficiaries and family will struggle to finalize end-of-life details after you're gone.

My LEAST favorite story regarding estate planning involves my first clients.

Despite previous encouragement to establish beneficiaries, they hadn't come around to developing a concrete plan for the future.

One of the clients passed away. Soon after, the surviving client became bed-ridden at a hospital in Portland. My last-ditch effort was to create a plan for my client at their bedside.

We spent time organizing the 10-15 family members as beneficiaries. We calculated percentages, signed all the "dotted lines," and finished the work. I felt good about the excellent service I provided...until he passed away.

We later found that two crucial numbers were switched, resulting in some relatives receiving money not intended for them! I had to confess my error to the executor in order to fix the mistake.

This last-minute fiasco can be avoided – update your will, trust, or estate plan now! This will ensure your wishes are carried out.

Another helpful tool is to create a notebook to spare your loved ones the hassle of organizing your estate. We created the Allevi-8 Book to make this process simple.

This notebook is available for purchase on Amazon.com (search "Allevi-8").

We also offer these books free to our clients as a place to begin getting organized. Contact us if you're interested in working together.

Whatever you use to organize your documents, make sure you put it somewhere safe and tell your loved ones where to find it if something happens to you.

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Financial Planning to Help You Stop Worrying About Money

SMB Financial is owned and operated by SMB Financial Services, Inc., a registered investment advisor with the SEC. SMB Financial Services, Inc. was established in 2003 and is located in the Portland, OR area.

* Flowing Data - https://flowingdata.com/2016/01/19/how-you-will-die/
** Social Security - https://www.ssa.gov/oact/NOTES/ran6/an2017-6.pdf
*** Aging and Disability Resource of OR - https://www.oregon.gov/DHS/SENIORS-DISABILITIES/SUA/Pages/ADRC.aspx

Schedule an Appointment To Create Your Plan

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