Spring 2014
www.prosperityconsult.com

THE PROSPERITY
CONSULTING GROUP, LLC
A WEALTH MANAGEMENT COMPANY

THE WEALTH ADVISOR

5 Withdrawal Strategies For Retirement Savings

For most people, it's not enough to scrimp and save for the golden years. Once you've entered retirement, you have to figure out how to crack open your savings nest egg. The manner and order in which you withdraw funds from various accounts can make a big difference in your retirement lifestyle.

Let's assume you've covered all the bases. During your work career, you participated in a 401(k) plan or another employer-based plan, enabling you to accumulate funds on a tax-deferred basis. In addition, you established one or more IRAs, and perhaps even a Roth IRA and annuities, to provide more retirement savings. And you've invested in stocks, mutual funds and bonds in brokerage and other taxable accounts. Having done all of that, you have several options for where to get the income you need in retirement.

The conventional wisdom is pretty simple. Start by withdrawing funds from your taxable accounts, and then later tap your tax-sheltered savings. The reason is that this will let you continue to benefit from tax deferral for a longer period and thereby preserve more of your nest egg.

But that oversimplified approach fails to take into account all of the relevant factors—including rates of return, projected inflation, your tax brackets both prior to retirement and when you're retired as well as your personal objectives. These five strategies could help you fine-tune your game plan:

1. Fill up the two lowest tax brackets. Under the current federal income tax rate structure, the two lowest brackets for ordinary income have tax rates of 10% and 15%, while the top rate is now 39.6%. A common goal is to generate income in retirement that will be taxed at the 10% or 15% rate, but no higher. (The next tax bracket is 25%.) Thus, you might figure on taking short-term gains on stocks or mutual funds in taxable accounts that would be taxed as ordinary income or generating other taxable income only up to the top threshold for the 15% rate. For 2014, the upper limit is $36,900 for single filers and $73,800 for joint filers.

2. Consider a Roth IRA conversion. When you make withdrawals from a traditional IRA in retirement, the distributions are taxed on a pro-rata basis. Only the portion representing deductible contributions and earnings is taxed at ordinary income rates. But for qualifying distributions from a Roth in existence at least five years and made after age 59½, the payouts are 100% tax-free.

(Continued on page 4)

Long-Term Care Insurance - Do I Really Need It?

This is a question we hear from our clients all the time. While preparing for retirement, it's essential to have a good plan in place.

Have you thought about the consequences that a long-term care event could have on your family? According to Genworth's 2013 Cost-of-Care Survey, the median daily rate to stay in a nursing home is $230 and is continuing to rise each year.

Long-term care insurance helps cover the cost of care, should you need it. Premiums are calculated based on your age and the benefits you choose.

It may be difficult to comprehend paying for such an expense, but the longer you wait, the higher the cost of the insurance premiums.

We recommend giving long-term care insurance coverage serious consideration in your mid-50s to early 60s.

This is an ideal time to be thinking about retirement and avoid having to pay the premiums for an extended period of time, all the while being young enough that your rates are not extremely high.

There are several options to consider for long-term care insurance and we'd be happy to review these options with you to find the best coverage to suit your needs!

Erin M. Ansalvish

Director of Financial Services

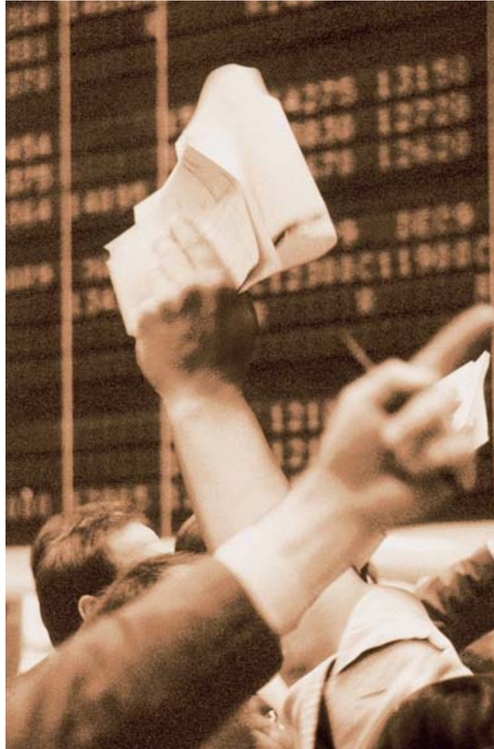
Don't Chase After The Market News

Did you read the newspaper today or check the news online? Invariably, the stock market will be heading up or down, with the movement triggered by anything from company earnings announcements to a change in economic indicators or even a political event such as the recent U.S. government shutdown. And, more often than not, financial pundits may respond by urging investors to buy or sell something.

But you can drive yourself crazy, if you haven't already, by making stock market decisions based on what just occurred or what you think will happen next. In fact, chasing after the news is a common investment mistake. There are at least four good reasons to avoid this temptation like the plague:

1. The stock market usually moves ahead of the news.

There was no "all clear" signal that the severe stock market downturn of 2008-2009 had abated. But the market hit bottom on March 9, 2009, and embarked on a long, profitable climb even as other financial news remained dire. Typically, stocks move about six months ahead of economic developments, reflecting the collective knowledge, trends, and inclinations of investors. If you try to beat the market by reacting to the latest news, you'll probably be much too late to benefit.



2. You don't have all the necessary information.

Markets tend to move based on the decisions of mutual fund managers or professional analysts who monitor and interpret financial data for a living. They have a lot more information than you do, and they get it much sooner than you—and millions of others like you—who will hear it on television or find it on the Internet. That puts you at a decided disadvantage.

3. You can't believe all the hype.

In this electronic age, media reports are often prone to hyperbole, as the pressure to generate interest from a fickle public continues to increase. That could lead producers to overreact to news tidbits or sensationalize minor events. One small incident usually doesn't portend a complete economic collapse, so take reports of impending doom with a grain of salt. It isn't likely that the sky is falling!

4. Market timing is difficult, if not impossible.

To be successful at market timing, you have to be extremely skilled or lucky, or both. Over the long term, buying or selling based on what you hear or read almost never beats a consistent, methodical long-term approach. It's better to make investment decisions based on financial particulars rather than on instincts and hunches.

Building a diversified portfolio combining stocks, bonds, and other investments can help you progress toward your financial goals—and it can help you stop worrying about what you hear on the news. ●

When Two Out Of Three Ain't Bad

From a tax perspective, a dream retirement account probably would encompass three elements:

1. Contributions to the account would be tax-deductible.
2. Accumulation of earnings within the account would be tax-deferred.
3. Distributions from the account would be tax-free.

Of course, there's no such animal, but various types of accounts can deliver two of those three elements. And two out of three ain't bad.

For instance, if you establish a traditional IRA, you may be able to deduct contributions to the account, especially early in your career when your income is lower. However, deductions for contributions are phased out if you (or your spouse) participate in a retirement plan at work and your income exceeds a specified level. Nevertheless, any earnings inside the IRA will continue to grow without erosion by taxes until the money is withdrawn.

When you take distributions from a traditional IRA, the portion of the withdrawal representing deductible contributions and earnings will be taxed at ordinary income rates. You also might owe a 10% tax penalty on the taxable portion of distributions you take before age 59½. Finally, after you hit age 70½, you'll have to take "required minimum distributions" (RMDs) each year.

Generally, your contributions to a 401(k) or another kind of "qualified" workplace retirement plan are exempt from taxes up to a specified annual maximum, and earnings inside your account continue to build up tax-deferred, just as they do with a traditional IRA. But here, too, your distributions from the plan will be taxable at ordinary income rates on a pro-rata basis—that is, you'll be taxed on the portion of each withdrawal that represents pre-tax

5 Steps To Protect The Digital Assets You Own

We're living in a digital world. Nowadays, those important papers that you used to stash in a file cabinet or a safe deposit box often are created and stored electronically. That can remove some of the clutter of having lots of paper around, and it also may be good for the environment. Plus, it gives you easier access to information you need. But advanced technology also may result in problems you may not have considered.

Your heirs could face particularly thorny issues. What will happen to all of your electronic documents and files when you die? Who will have access to them? How will family members be able to find your user names and passwords? What about your photos and music? Will your social media accounts live on forever or will someone take them down? What about bills and insurance premiums you've been paying online? How about information that you want to remain confidential? Those and many other similar questions need to be addressed.

There also could be problems in other situations. Suppose you're severely incapacitated and your oldest child starts to handle your financial affairs online. As far as the financial institutions are concerned, you're still the person logging onto the account and making the transactions. Is it legal for your child to step in if a financial institution doesn't have a durable power of attorney on file? Are there any other restrictions?

State laws are continuing to evolve in this area, so there are no definitive answers, and you could be subject to rules that you agreed to when you signed up for various internet accounts—even if you paid scant attention to the fine print.

Nevertheless, it makes sense to do what you can to safeguard your digital assets while you're in good health. Putting aside the legal technicalities for the moment, here are five steps that could provide some measure of protection:

1. Make a list of passwords and accounts. The first thing to do is to make sure your loved ones have access to your user names and passwords, or that they know where to find that information if it's needed. And try to remember to update your list when you are prompted to change a password for security purposes. It won't do much good to give someone a list of expired passwords.

2. Use a password manager. Along the same lines, it can be difficult managing all of your electronic accounts, even under the best circumstances. A simple solution is to use an online password manager service. Once you enroll with the service, a single password grants access to all of your accounts.

3. Provide authority under your will and durable power of attorney. Don't forget to coordinate the management of your digital assets with your overall estate plan. This may require some additions or modifications to your existing will and durable power of attorney. If you don't have a power of attorney in place, now is a good time to create this document. It enables a designated party to act on your behalf in a multitude of situations.

4. Review vendor contracts. Check the terms of agreements you've signed with social media sites and other online entities. In some cases, matters will be taken out of your own hands. If you're not satisfied with the terms, you might opt to close the account or shift to a different provider. At the very least, develop a good understanding about how things will work in the event of your incapacitation or death.

5. Consider storage with an online company. Undoubtedly, your electronic files contain sensitive information you need to protect, such as your Social Security number and account numbers for securities and IRAs. If that information falls into the wrong hands, it could lead to a financial and logistical nightmare. That could be avoided if you use an online storage company to secure your data.

Technology can simplify our lives, but it also may result in unexpected complications. That's why it's important to do whatever is necessary to give family members the access they will need to handle your financial matters. ●

contributions and the earnings they generate. But if you change jobs or retire, you could make a tax-free rollover into another qualified plan or an IRA. As with traditional IRAs, distributions from workplace plans prior to age 59½ are normally subject to a 10% tax penalty, and the rules for RMDs also apply to these plans unless you're still working full-time.

With a Roth IRA, contributions are never deductible, but any earnings in the account will grow tax-deferred. Even better, for a Roth you've had for at least five years, distributions after age 59½ are tax-free. If you make a withdrawal within the first five years, account earnings will be taxed at ordinary income rates but you'll be allowed a tax-free return of contributions.

Unlike traditional IRAs and qualified plans, a Roth IRA doesn't force you to take RMDs during your lifetime. That means you can pass along all of the account's assets to your heirs.

Because there's no dream plan that offers all three desirable attributes, you could choose to combine different kinds of accounts to get a blend of tax benefits. ●

Find Extra Benefits In DI Insurance

The odds that you'll suffer a disabling injury or illness are far greater than the likelihood of you dying prematurely. A disability income (DI) insurance policy, used to supplement life insurance coverage, could help protect you from loss of income if you're unable to work. Indeed, a DI insurance policy might provide even more benefits than you expect.

Typically, a private DI insurance policy can pick up some of the slack if you're disabled for an extended time. Should you no longer be able to work, you will begin receiving a monthly disability benefit. Normally, the benefit is a predetermined amount, unlike employer-provided coverage, in which the benefit equals a percentage of compensation.

As with life insurance, DI terms can vary widely from policy to policy. Some key variables include the amount of the benefits you'll receive; the length of the coverage; the requirements for receiving full benefits; the definition of "disability"; the length of the waiting period before benefits begin; any cost-of-living adjustments; availability of partial benefits; and possible non-cancellation features. Naturally, the cost of the premiums also will vary, depending mainly on those variables.

But don't assume that you must be bedridden to collect any benefits. Frequently, a DI insurance policy will provide "residual benefits" in the event you can work some of the time or if you're slowly getting back on your feet. Some policies even offer benefits after you've returned to work if you are earning less than you did before your disability.

The residual benefits generally kick in when the loss of income is greater than 20% of previous earnings and the decline is due to the medical condition underlying the disability. This feature could be especially valuable to small business owners, including self-employed entrepreneurs, and professionals in fee-based practices, such as physicians, attorneys, and accountants.

For example, suppose a surgeon recovering from a severe illness returned to practice but was able to see fewer patients. If the surgeon's income was reduced from $50,000 a month to $30,000, the residual benefit could restore income to 80% of the pre-disability level—in this case, $40,000 a month. Similarly, if the side effects of chemotherapy make it too hard for a litigator to appear in court or for a CPA to handle a company's books, the residual benefits can soften the economic blow.

To see what your coverage may or may not include, take a close look at existing DI policies or any new policy you're considering and have your insurance agent explain the residual benefits section. The policy might be more valuable than you imagined or the residual benefits may be too restrictive. Those provisions could be a key component of your DI insurance coverage. ●

Strategies For Retirement

(Continued from page 1)

Accordingly, you might convert traditional IRA funds to a Roth, keeping in mind that the amounts you convert will be treated as taxable distributions. Building on the prior strategy, stagger conversions over a few years to maximize your use of the two lowest tax brackets.

3. Spend from taxable accounts first. Suppose you've taken all of the income you can that's taxed at 10% or 15% but you still need more funds. What's next? All things being equal, taking money from your taxable brokerage accounts may be preferable to raiding a 401(k) plan or IRA. You may generate mostly long-term capital gains, and they're taxed at lower rates than ordinary income.

4. Keep your bond holdings in IRAs. Although income from bonds is taxed at ordinary income rates, stock sales may qualify for preferential capital gain treatment. Currently, the maximum tax rate on gains from stock owned more than one year is 15%, and 20% for investors in the top 39.6% tax bracket. But you lose the benefit of these favorable tax rates for stocks held inside an IRA, because when you withdraw from an IRA much of the distribution may be taxed as ordinary income. As a result, it's generally better to keep bonds inside an IRA, to defer taxes on interest payments, and stocks on the outside.

5. Don't forget about life insurance. So far, at least, Congress hasn't reduced the tax benefits of life insurance. The death proceeds are free of federal income tax and you can easily arrange to avoid dire estate tax consequences. Thus, you can consider life insurance to be a supplement to 401(k) and IRA funds on the "back end" of retirement, particularly as a source of income for a surviving spouse.

Note that other factors may come into play that could affect how, when, and where you go for retirement income. For instance, upper-income individuals also may have to account for a 3.8% Medicare surtax on "net investment income" received during retirement. The best idea is to develop a comprehensive plan for building your retirement paycheck that considers the potential tax consequences of various approaches. ●

Securities offered through Triad Advisors Member FINRA, SIPC. Advisory Services offered through The Prosperity Consulting Group LLC. The Prosperity Consulting Group, LLC is not affiliated with Triad Advisors. The articles and opinions expressed in this document were gathered from a variety of sources, but are reviewed by The Prosperity Consulting Group, LLC prior to its dissemination. All sources are believed to be reliable but do not constitute specific investment advice. In all cases, please contact your investment professional before making any investment choices. Any articles written by The Prosperity Consulting Group, LLC will include a 'by line' indicating the author.