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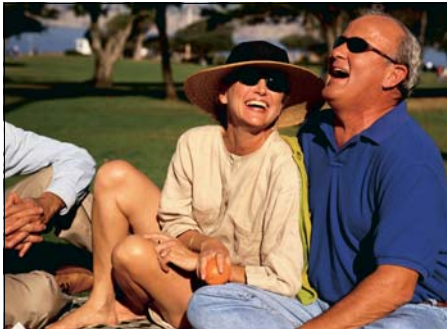
THE WEALTH ADVISOR

10 Steps To Take On The Path To Early Retirement

The new American dream is to retire early, perhaps in your 50s or even your 40s. But how do you make this dream a reality? These steps could help:

1. **Map out a plan.** Retiring early requires starting early with very deliberate planning. Design a road map of how you will get there, including an analysis of your investments and how much income you anticipate getting from other sources, such as Social Security (which won't kick in until your 60s at the earliest), and spell out the details in writing. To accumulate enough to retire early, you'll likely need to take a fairly aggressive approach to investing while working full time. You'll also need continued growth during a phase-down period and a plan for how you'll manage assets when you're completely retired.



2. **Get going now.** Immediate action also is called for if you're going to meet this ambitious goal. Put your plan into motion today instead of waiting for a tomorrow that might never come.

3. **Control your debt.** One of the biggest impediments to early retirement is spending too much while you're working, especially if you build up substantial debt. The more you borrow, the harder it will be save enough to call it quits. Not only do debt payments siphon away money that you could use more productively, you're also paying extra in interest charges. You're bound to have a mortgage and perhaps a car payment, but if you eliminate luxury purchases now you'll be more likely to have the money later to support yourself without working.

4. **Educate yourself.** Knowledge is power, and learning about investing and other financial matters can help you make good choices on the way to early retirement. Understanding the more complex assets you may hold—bonds, exchange-traded funds, annuities, etc.—should enable you to avoid mistakes that could disrupt your progress. Take the time to learn everything you need to know.

5. **Make the process automatic.** Human nature being what it is, it may be difficult for you to remain diligent about saving more and spending less. But you could do yourself a favor by automating some things that can help steer you toward early retirement. Increasing your 401(k) plan contributions—perhaps by directing part of a salary increase into your account—can make a big difference. You also might take a systematic approach to prepaying mortgages or car loans.

6. **Don't ignore taxes.** It's not only how much you earn that makes a difference; it also matters how much

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Stock Market Jitters?

After nearly four years of solid returns, the S&P 500 has seen a correction, which is defined as a drop of 10% or more. While it is natural to feel worried when stocks are moving down, please keep these thoughts in mind:

1. Market volatility is normal. Since 1927, the S&P 500 has dropped at least 5% on average every 3.5 months. Since 1900, the Dow Jones Industrial Average has dropped at least 20% every 3.5 years.

2. Pullbacks and volatility provide good buying opportunities for savvy investors. Most of us like a good sale when shopping. The same should be true when buying stocks.

3. Diversifying in funds that invest in stocks, bonds, and cash may lower the volatility and risk.

4. Focus on what you own. Either individually or through mutual funds, you own shares of large corporations, such as Apple, General Electric, Verizon, and Proctor & Gamble. While their stocks may fluctuate, these are solid companies whose products we use every day.

5. Focus on the long-term. Stocks outperform other investments over the long-term. Most investors' time horizons are longer than 5 years.

While it might feel difficult, don't panic or change your investment strategy during a downturn. And remember, we are always here to discuss your personal situation.

Donna C. Gestl, CFP®, AIF®

Senior Vice President

8 Smart Moves For College Grads

Have you or one of your kids recently graduated from college? There's a lot to look forward to—a first job, maybe marriage and family and financial success. But college graduates can't assume that good things will happen automatically. Here are eight moves to make as soon as the ink on the diploma dries:

1. **Get organized.** Put your house in order by collecting vital papers such as your Social Security card, passport, and any investment documents and insurance policies. For optimal protection, store papers you don't need regularly in a bank safe deposit box or another secure location.

2. **Start paying down debt.** If you've borrowed money while earning your degree, chip away at your liability. The top priority is to wipe out credit card debt, on which you're likely paying a sky-high interest rate. What about student loans? Often those interest rates are low and much of your repayment will make a dent in the principal.

3. **Devise a monthly budget.** Once you have a firm grasp on both your monthly income and expenses—rent, car payments, and the like—create a budget. The goal is to be in the black, spending less than you earn, with some savings to spare, but allocate funds for entertainment, too.

4. **Open bank accounts.** If you don't already have them, set up checking and savings accounts at a local bank. But don't overdo things with your new debit card. And be careful with credit cards—using them can help establish your credit history but try to pay off your borrowing quickly to avoid high interest charges.

5. **Look to invest.** Now that you have an income, think about how to use some of it to earn more money. For starters, open a brokerage account with a reputable firm. At this early stage in your life, you generally can afford to be relatively aggressive with your investment choices, because you'll have time to overcome temporary losses. But keep in mind your personal tolerance for investment risk.

6. **Create a "rainy day" fund.** It's impossible to anticipate all of the expenses you'll incur during the next few years. Try to set aside something extra in case of emergencies. For instance, you might face a layoff or an unexpected medical or dental bill. Have enough savings on hand to carry you through for a few months.

7. **Think about retirement.** That's not a misprint. Although you're still decades from calling it quits, the sooner you start saving for retirement, the better. Take advantage of company plans such as a 401(k) (especially if your company matches contributions) and consider supplementing your savings with an IRA.

8. **Obtain financial guidance.** Fortunately, you don't have to do it all on your own. We can provide assistance based on your personal circumstances. Don't hesitate to contact our office for more details. ●

Turning Up The HEET For Education

Are you looking to help finance the cost of your grandchildren's college education or medical expenses? There are many possible ways to go about that, including contributing to a Section 529 college savings plan for them or simply paying their health costs. But one increasingly popular method is to use a health and education exclusion trust, commonly known as a HEET (pronounced "heat").

What makes HEETs so hot in estate planning circles these days? If properly structured, a HEET avoids the pitfalls of estate and gift tax and the generation-skipping tax (GST) that may hinder other approaches. And its benefits can help future generations of your family.

Normally, gifts during your lifetime are shielded from gift tax by an annual gift tax exclusion ($14,000 in 2015), with any excess covered by a unified estate and gift tax exemption ($5.43 million in 2015). The exclusion and exemption amounts are indexed annually for inflation (although the gift tax exclusion is the same as it was in 2014). But if you use part of that exemption for gifts while you're alive, there will be less available to shelter assets from estate tax when you die. In addition, gifts that "skip" a generation—for example, gifts that go directly from a grandparent to a grandchild—are generally subject to the GST tax. There's a GST exemption to shelter such transfers for lifetime gifts and bequests that skip a generation.

A HEET is designed to sidestep all of that. It is based on a special provision of the tax law that says that gifts made directly to an educational institution or a health care provider don't count as gifts for tax purposes. In other words, these gifts are tax-free above and beyond the usual exclusion and exemption amounts.

The key is that the transfers from

IRS Zeroes In On The Dirty Dozen Tax Scams

Each year, the IRS provides a list of what it calls a "dirty dozen" tax scams. But in 2015, instead of simply announcing the list, the tax agency issued press releases on each scam. Here's a rundown on this year's top offenders:

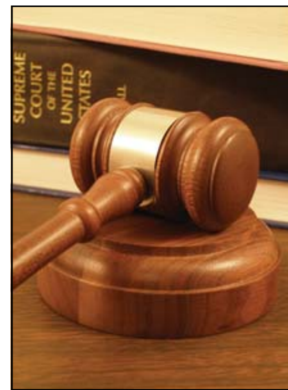
1. **Phone scams.** This is traditionally near the top of the list and often proliferates during tax-filing season. Typically, someone will alter a caller ID number in order to make it look like it's the IRS on the phone. Then the scammer is likely to threaten dire consequences if the victim doesn't immediately provide financial information and access to bank accounts.

2. **Phishing.** In a similar approach, criminals try to lure in victims through fake emails or websites and then gain access to personal information that's used to commit identity or financial theft. The IRS never initiates contact by phone or email, so don't be fooled into giving a caller your personal information.

3. **Identity theft.** Scammers may try to steal your Social Security number so they can file a fraudulent tax return claiming a tax refund. The IRS says it is continuing to step up its methods for identifying false returns and expanding partnerships with financial institutions to identity and stop bogus refunds.

4. **Tax return preparer fraud.** While the vast majority of tax return preparers are honest, there are still some people out there who may try to goad you into bad decisions to their benefit. To protect yourself from unscrupulous preparers, look for recommendations from friends or for advisors in your area who have a good reputation.

5. **Unreported offshore accounts.** A common tax dodge is to hide income via offshore bank or brokerage accounts or nominee entities and then use debit or credit cards or wire transfers to tap the funds. In a similar scam, taxpayers may use foreign trusts, employee-leasing schemes, private annuities, or insurance plans for the same purpose. The IRS is ramping up efforts to thwart these schemes.



6. **Inflated refund claims.** Some scam artists pose as tax preparers during tax return season. They lure in people by promising outlandish federal tax refunds, then collect big fees and disappear.

7. **False charities.** After major disasters, scammers may impersonate charities to pry money or private information from the concerned public. Sometimes these thieves will reach out by telephone or email to solicit money or financial information. Or they might contact disaster victims directly and claim to be working for the IRS.

8. **False 1099s and W-2s.** Filing a phony information return, such as a Form 1099 or W-2, may reduce your tax liability. Some criminals provide self-prepared, corrected, or fake forms that improperly report taxable income as zero. Another approach is to submit a statement rebutting wages and taxes reported by a third-party payer to the IRS.

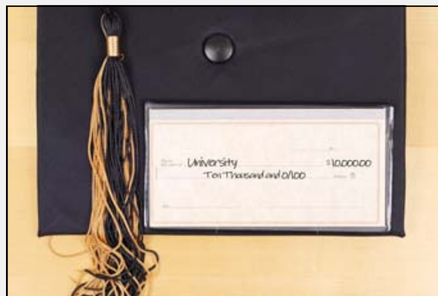
9. **Abusive tax shelters.** These range from relatively simple structuring of abusive domestic and foreign trust arrangements to sophisticated strategies based on foreign financial secrecy laws. Although a trust may be used for legitimate estate- and tax-planning purposes, the IRS could challenge questionable transactions.

10. **False income.** Some people may falsify income reported on their tax returns to claim refundable credits, such as the earned income tax credit, and sometimes their tax preparers are in on the scam. Violators could be punished by having to pay restitution, interest, and penalties and might face criminal prosecution.

11. **Excessive claims for fuel credits.** The fuel tax credit generally is limited to off-highway business use or use in farming. Yet while it isn't available to most taxpayers, some fraudulently claim the credit to inflate their refunds.

12. **Frivolous tax arguments.** The IRS and the courts may dismiss certain claims as being frivolous and a waste of time and money. See the 2015 version of "The Truth about Frivolous Tax Arguments" provided to taxpayers. One illegitimate approach is to refuse to pay taxes on religious or moral grounds by invoking the First Amendment. ●

the HEET have to go to a college or a hospital, say, rather than directly to a student or patient. Any distribution made to the beneficiary or to a party other than an educational institution or health care provider will trigger tax consequences.



Once it is funded, a HEET can pay an unlimited amount of qualified educational or medical expenses on behalf of the beneficiary. Under prevailing rules, "qualified education expenses" include tuition paid for a student to attend a primary, secondary, undergraduate, or post-graduate domestic or foreign education program. The beneficiary may be a full- or part-time student. The definition of "qualified medical expenses" is the same as the tax law definition of those expenses for medical deductions.

Once you set up a HEET, it can cover the education and health care expenses of multiple beneficiaries over several generations. Money that isn't used by one generation will be there for the next one. ●

4 Estate Issues For Business Owners

Estate planning is essential for almost everyone, but it's especially important if you own a business. Your company may account for the majority of what you leave to your heirs. And while you may be years away from retirement, it's far better to get started sooner rather than later. Consider these factors that you may need to address in your estate plan:

1. **Succession plan.** This can have a ripple effect on other aspects of your estate planning. Do you plan to sell the business to an outsider, or perhaps to hand the reins to a member of your family? If you're grooming a family member for the top spot, it's a good idea to make that clear to everyone involved. Similarly, if power within the company is to be shared among several family members, spell out how that will work. Establish how much control you may want to keep, and make sure you document the arrangement so there won't be misunderstandings.

2. **Buy-sell agreement.** A buy-sell agreement may work hand in hand with a succession plan. A buy-sell agreement is a contract between a company's co-owners or shareholders specifying what will happen if a principal dies or is disabled. The main benefit is that such an agreement establishes a value for the business, which may be helpful for various purposes—for example, if someone wants to buy or sell shares from or to another co-owner.

3. **Estate taxes.** The specter of potential tax consequences often lurks in the background for small businesses. Even with the generous federal estate tax exemption ($5.43 million in 2015), your heirs may face tax complications, especially on the state level. Because most businesses have a minimum of cash on hand to pay estate taxes, the company might have to be sold to satisfy federal or state obligations. Estate tax returns are generally due within nine months of death, so make provisions now to avoid a distress sale in the future. And find out what tax breaks could benefit the estate—for instance, a federal tax law provision that allows deferral of estate tax payments when a business interest comprises at least 35% of a taxable estate.

4. **Life insurance.** One way to avoid a forced sale of a business is to secure adequate life insurance protection for the owner or co-owners. Proceeds from a life insurance policy can be used to pay estate taxes, debts, or other business obligations when an owner dies. Life insurance also may be an essential part of a buy-sell agreement. Depending on your needs, you might choose a form of whole life insurance, term insurance, or another variation.

To avoid problems down the line, consider all of the estate planning implications of owning your business. We will be glad to assist you with the specifics based on your personal circumstances. ●

10 Steps On The Path

(Continued from page 1)

you keep after taxes, and it's smart to make taxes a prime consideration in most of your investment and financial dealings. Tax-deferred growth inside 401(k)s and IRAs or investing in tax-free municipal bonds in taxable accounts could have a big impact, especially if you're in a high tax bracket. Savvy tax bracket management over time can save you tens or even hundreds of thousands of dollars.

7. **Go "all in."** Retiring early almost certainly will require an all-out effort over many years. It may help to work toward this goal as if you were running a business by keeping a steady eye on building toward the future. Try not to be unrealistic about the returns you expect to get from your investments and retirement plans, and follow through on the saving and spending objectives you've outlined in your early-retirement plan.

8. **Assume full responsibility.** Assuming you don't hit the jackpot in a lottery or receive a big, unexpected inheritance, you can succeed financially only if you take charge of all aspects of your life. That means correcting mistakes, making necessary adjustments, and striving for sound financial decisions. Part of taking responsibility can involve getting guidance from a knowledgeable professional advisor.

9. **Manage your risk.** Avoiding substantial investment losses can be just as important as generating big gains. That's why it makes sense to emphasize risk reduction as you formulate your investment strategy. Keep in mind that financial markets are inherently volatile. And while that doesn't mean you should sink all of your money into U.S. Treasury bills and other traditionally safe investments, you probably will need to include such holdings in your overall portfolio mix to minimize the damaging ups and downs that can work against your goal of retiring early.

10. **Use common sense.** Finally, be as logical and rational as you can be in pursuing your goal. In particular, try to avoid panicking during inevitable market downturns. If you save diligently and stay the course with a well-diversified portfolio, early retirement might not be a pipe dream. It could happen to you! ●

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