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The Wealth Advisor

Ten Frequent Retirement Mistakes You Should Avoid

When your retirement finally arrives, you can take a deep breath and exhale. You made it! But that doesn't mean you may relax completely.

In fact, mistakes made in retirement can cause significant financial distress. Here are 10 common pitfalls to avoid:

Mistake 1. Going on a spending spree. It may be tempting to start spending freely, especially because you now have more time on your hands. But you don't want to burn through your savings in just a few years. It's still important to rely on a budget that helps you balance monthly income and expenses.

Mistake 2. Applying for Social Security right away. Most people are eligible to begin receiving Social Security benefits as early as age 62. Although that may be the best approach for some retirees, it's not recommended for everyone. You can ensure greater monthly benefits by waiting until full retirement age (FRA) to apply—age 66 for most Baby Boomers—or even longer. Starting your benefits at age 70 will give you the largest possible monthly benefit.

Mistake 3. Not taking income taxes into account. Even though you're retiring, taxes will continue to have an impact on your financial life in general and your investments in particular. You still can take advantage of investment losses to offset capital gains that otherwise would be taxed, while distributions from your employer-sponsored retirement plans and IRAs may add to your tax bill. If you have a Roth IRA, you may be able to take tax-free payouts—or pass them along to your heirs.

Mistake 4. Becoming too conservative in your investments. The traditional advice is to shift your portfolio to lower-risk investments during retirement. That makes sense as a general principle, but don't go too far. Consider your life expectancy and how long you will have to stretch the income from your savings. By avoiding investment risk you could increase another kind of risk—the risk of outliving your savings.

Mistake 5. Being handicapped by your biggest asset. It's often hard to give up the home in which you raised your children. However, at some point during retirement, it may become too expensive to live there. Even if you've paid off your mortgage, you'll still be responsible for real estate taxes, repairs, and utilities, which could add up to thousands of dollars a month. Selling to reclaim your equity and then buying a smaller place could free up your equity while reducing your costs.

Mistake 6. Being victimized by a scam. Con artists frequently prey on the elderly, and today's schemes are increasingly sophisticated, putting almost everyone at risk. Imposters may create phony websites that mirror ones from reputable financial institutions and

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Asset-Based Long-Term Care

With people living longer and with the cost of health care increasing much faster than people's ability to save, the need for some kind of funding mechanism for long-term health care is essential. If you do need long-term care, it could impact your family as well as your retirement plan.

According to Genworth Financial, a private room in a nursing home averaged $92,378 in 2016, and a home health aide averaged $46,332. So why don't most people have traditional long-term care insurance? The most common reasons are that it's expensive, they are worried about rate increases, and concerned about spending the money and never needing it. There is a solution; asset-based long-term care policies. These policies provide long-term care benefits for a certain number of years, a death benefit if you don't use long-term care and some provide a money-back option in case you decide you don't want the policy after all. Asset-based policies are usually funded with a single premium, although flexible premium payment options are available.

There are several types of asset-based polices to fit your needs. Contact us today, to discuss your long-term care options!

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5 Key Documents In An Estate Plan

To do a job right, you need the proper tools. And while every estate plan is unique, these five documents are often integral elements in all plans:

1. Financial power of attorney. This document authorizes an "attorney-in-fact" to act on your behalf in financial matters. The most common power of attorney, a "durable" one, remains in effect if you're incapacitated. Another variation, which is known as a "springing" power of attorney, transfers control to the designated person only if you're incapacitated.

The attorney-in-fact may have broad powers, able to buy or sell personal property, for example, or the role may be limited to specified tasks. This power of attorney expires when you die.

2. Health-care power of attorney. This also authorizes another person to make decisions on your behalf if you're unable to do so—in this case, involving medical care, carrying out your end-of-life wishes, and related matters. Here, the attorney-in-fact is typically your spouse, a child, or a sibling. Like a financial power of attorney, it may be broad or limited and expires at your death.

3. Living will. While a health-care power of attorney may authorize someone to help with end-of-life decisions, establishing what will happen when you're dying is the sole purpose of a living will. Depending on the laws of your state, you may be able to use a living will to say whether or not you want life-sustaining treatment if you are terminally ill or grievously injured.

Also depending on state law, a health-care power of attorney and a living will may be able to be combined into one document. In other states, a living will may supplement a health-care power of attorney, and both documents can be coordinated with other medical directives or proxies.

4. Trusts. There are many reasons for creating and funding trusts. A trust could be used to prevent family squabbles or impose restraints on spendthrift family members. One variation, a living trust, often supplements a will because assets in the trust don't have to go through probate court proceedings.

Though there are myriad variations, all trusts are either revocable or irrevocable. With a revocable trust, you retain control over the assets. Yet while that's not the case with an irrevocable trust, this type of trust can protect assets from creditors and remove them from your taxable estate.

5. Will. Last but not least is your will, which establishes how your assets will be distributed after you die and who will have custody of any minor children. You also could use it for other purposes such as making charitable donations and creating trusts.

If you die without a will—"intestate," in legal parlance—the laws of your state will determine who gets your assets and assumes guardianship of your children. As the centerpiece of your estate plan, this is definitely one tool you can't be without. ●

4 Year-End Strategies For Investors

The end of the year is a great time to assess your current investments from both a tax, and a financial perspective. Depending on your situation, you might rely on four key strategies to improve your tax picture for 2016:

1. Capital loss harvesting: Capital losses can offset taxable capital gains, and if your losses for the year exceed your gains, you can use the excess to offset up to $3,000 of highly taxed ordinary income, such as the salary from your job. If you still have an excess loss, you can carry it over to use in future tax years.

This presents some tax planning opportunities at the end of the year. For instance, if you've already realized a short-term capital gain that will be taxed at ordinary income rates, you could sell a holding at a loss to offset all or part of that gain.

2. Capital gain harvesting: On the flip side, you might use an existing loss on a securities sale to absorb the potential tax from a capital gain. For example, if you've taken a loss, you might harvest a short-term capital gain that otherwise would be taxed at ordinary income rates.

If you have a long-term capital gain (from selling an investment you've held longer than a year), you benefit from a maximum tax rate of 15%, even if you're in the regular 25%, 28%, 33% or 35% bracket. Those in the top 39.6% bracket pay a maximum 20% rate on long-term capital gains. And investors in the two lowest brackets of 10% and 15% pay 0% on long-term gains.

3. Wash sales: Under the wash sale rule, you aren't allowed to deduct a capital loss on the sale of securities if you acquire substantially identical securities within 30 days of the sale. For instance, if you sell mutual fund shares at a loss and buy back shares of the same fund two weeks later, you can't claim the loss.

Women Have Better Credit Scores, But Lower Ratings

A new study shows that women have higher credit scores on average than men yet have lower average credit ratings than men. Why? Pay disparity between men and women is part of the reason but there also are other causes, according to a January study by Credit Sesame, a free Internet-based credit reporting agency.

Credit Sesame says that among its members, the average credit score for men is 630, compared to 621 for women. Also, Credit Sesame notes that men actually owe more on average than women; the average man in its database has debts totaling $25,225, while the average woman owes just $21,171.

How can men owe more and still have better credit scores? Income likely has a lot to do with it, says Linda Sherry, a spokesperson for Consumer Action, a nonprofit consumer advocacy and education organization. "We know that men have higher salaries than women, on average, for the same positions," Sherry says. "Those men may have more (ability) to take out more credit (than women)."

Credit Sesame adds that its statistics show men have lower debt-to-income ratios than women, which means that, while their debt is higher, their incomes are higher, too. Among its members, 23% of men report that they earn more than $75,000 a year. Only 18% of women say the same.

The cost of living also may be higher for women than it is for men. Women often have to pay more for similar products, says Melinda Opperman, a certified credit counselor and senior vice president for community outreach and industry relations at Springboard Nonprofit Consumer Credit Management, Inc. "Many products that are marketed 'just for women' are no different than products for men, but cost more,"

Opperman says. Doctors also tend to order more tests for women than they do for men. "All of these kinds of things add up, and leave women with less money to pay the credit card bills than their male counterparts," she adds.

Credit Sesame says women also tend to use more of the credit that's available to them than men do, with 59% of its female members using more than 70% of their available credit, compared to 57% of men who borrow that much. Meanwhile, 28% of men use less than 30% of their total credit, while only 25% of women do so.

Credit utilization – the amount of your credit card balances compared to your credit limits – is another important factor in your credit score. So the fact that men use less of their available credit is another reason for their higher credit scores.

Women also are more likely than men to have serious trouble managing their debt, according to the data. The report says 57% of men have no accounts in collections, while only 53% of women are free of this stain on their credit histories. Women are more likely than men to end up in a situation where their debt seems to have spiraled out of control. About 18% of women have five or more accounts in collections, compared to 14% of men who are in the same boat.

For both men and women, credit scores tend to improve with age. Still, in all age groups, men's scores are better than women's — and their advantage grows as they get older. According to Credit Sesame's data, men ages 35 to 44 have an average credit score of 623, while women in this age group have an average score of 614. By ages 55 to 64, men have pulled further ahead, with an average score of 661, compared to women's average score of 651. And men ages 65 and up are doing even better compared to their female peers: men in this group have an average score of 705, while women over 65 have an average score of 690.

The income gap could partly explain this trend, too. If men start out making more, their advantage will grow over the course of their careers as they get raises on a higher base salary.

It's also still the case that women are more likely than men to take time away from work to take care of their families.

That means men are more likely to have been working steadily throughout their careers, earning promotions and raises as they go, while women are more likely to have taken a few years off, worked part-time for a period, or deferred promotions to care for their kids or aging parents. ●

In this case, all you have to do is wait at least 31 days before buying comparable securities. Alternatively, if it makes financial sense, you could buy the new shares right away and wait at least 31 days before selling the original shares.

4. NII tax: You could owe an additional 3.8% surtax that's applied to the smaller of your net investment income (NII) or the amount by which your modified adjusted gross income (MAGI) exceeds $200,000 for single filers and $250,000 for joint filers. The definition of NII includes most taxable income such as capital gains from securities sales.

To reduce your NII tax exposure, you might defer realizing capital gains until next year. And investments producing tax-free income, such as municipal bonds, are exempt from the NII calculation. ●

Higher-Paying Job May End Up Costing You

Are you thinking about taking a higher-paying job in another state? Better think it through very carefully. That new job actually could end up providing you with less spendable income than you get from your current job.

How's that possible? A number of factors may affect the cost of living in any area, and some job seekers fail to consider overall living expenses in the area where the higher-paying job is located.

In fact, according to Glassdoor, an online job-listing site, almost 70 percent of job hunters say salary is their top priority when looking at a new job offer. Location and commute come in as the second choice at 59 percent. Benefits and perks come in third at 57 percent.

"Often times when people move, they have no idea what the overall cost is," says Kristen Robinson, senior vice president of the Women and Young Investors unit of Fidelity Investments. "They're just looking at the salary increase and thinking, 'Wow, I'm making $10,000 more a year.'"

Changing jobs can mean having to pay more for some perks or losing some benefits altogether. Health care costs may go up and 401(k) matches may go down. Or someone in the job seeker's family may have a chronic health condition that could lead to much higher expenses if coverage in the new position isn't as good as at the previous company.

Other factors also enter the picture: property values (whether you own or rent) may be higher in the new area, which could mean increased property taxes and insurance rates or higher rental costs. These increased expenses could add significantly to the cost of living in the new area. Groceries may cost more, as well as gasoline and other everyday living expenses.

All of these factors could cut a $10,000 annual salary increase considerably – if not completely – or possibly even cause the increase to fall into negative territory.

Some benefits, including health care costs and 401(k) match, are not negotiable. But Scott Dobroski, a spokesman for Glassdoor, says people considering a job change based on salary should take a hard look at the numbers and decide what perks and benefits are most important. For example, a flexible work schedule may rank high on a job seeker's list of preferences.

Dobroski adds that job seekers also should crunch the numbers to get a better understanding of the overall financial picture. One positive change could be that the new job is located in a state with no state income tax. Seven U.S. states—Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming—currently don't have an income tax. And residents of New Hampshire and Tennessee are also spared from handing over an extra chunk of their paycheck on April 15, though they do pay tax on dividends and income from investments.

If you're considering accepting a higher-paying job in another state, feel free to contact us. We may be able to help in your decision-making process. ●

Retirement Mistakes To Avoid

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pretend that the information they're seeking is crucial. Be very careful about working with anyone you don't know personally.

Mistake 7. Continuing to support your adult children. No matter how old you are, you never stop being a parent. Nevertheless, there comes a point when you must realize that you're living on a fixed income and can't support your children in the same manner as you could during your peak earning years. Worry about paying your own expenses first. Then, if there are assets left over, you can follow your parental inclinations.

Mistake 8. Underestimating health-care costs. Just because you're eligible to receive Medicare at age 65 doesn't mean all of your expenses will be paid. You'll probably need other coverage to supplement Medicare, and if you or your spouse encounter serious health issues, you could run up extremely high costs for care in a nursing home or care in your home. Long-term care insurance, when purchased early enough, can provide affordable protection. Alternatively, you might need to set aside funds to pay for potential care expenses.

Mistake 9. Leaving work too soon. Sure, some people would like to call it quits as early as possible, but it's important to be realistic. Go back to your budget and consider it in terms of how long you're likely to live. Although it may not be your first choice, the option of working for a year or two longer could help in two ways, adding to your nest egg and shortening the length of time you'll need it to fund retirement expenses. Coordinate this decision with your choices for Social Security benefits.

Mistake 10. Not seeking professional guidance. Instead of trying to do it all on your own, or relying on the advice of friends or family, sit down with your financial adviser to map out a plan. This last step may help you avoid many of the other mistakes and improve your chances of a comfortable retirement. ●

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