MILESTONE
Financial Planning, LLC

www.MilestoneFinancialPlanning.com Fall 2016

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

(Continued on page 4)

Take Your RMD On Time, But You Might Want To Add To It

Under the rules for required minimum distributions (RMDs), you generally have to withdraw money from employer-sponsored retirement plans and traditional IRAs when you're in your 70s, whether you want to or not. But here's a way you might beat the IRS at its own game: Take out more than the required amount and convert the excess into a Roth IRA.

You have to start making annual withdrawals from retirement plans, such as 401(k)s, and IRAs in the year after the year you turn 70½. You may be able to postpone RMDs for qualified plans (but not IRAs) if you're still working for the employer providing the plan and you don't own the company. RMDs for the current year are calculated from life expectancy tables and your account balance on December 31 of the prior year.

The penalty for failing to take the required RMD is equal to 50% of the amount you should have withdrawn. That's added to the regular income tax you owe.

You can't convert an RMD into a Roth IRA. However, if you take out more than the amount required by the life expectancy tables, you can convert that excess into a Roth. After five years, any distribution from the Roth is tax-free. And if you don't need the money, it can stay in the Roth as long as you live and be passed along to your heirs.

Other factors may come into play. We can help you decide whether this could work for you.

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. ●

Seek The Comfort Of A Pet Trust

Is your pet practically a member of the family? If so, you're certainly not alone, as many pet owners would go to extreme lengths to protect the well-being of their animal companions. In fact, you might even want to spell out plans to care for Fido or Tabby in a legally binding document, especially if you're fearful that your pet will live longer than you do.

"Pet trusts" have been around for years, but their popularity has been rising recently. In 2016, Minnesota became the last state in the nation to approve such arrangements. Now a pet trust can be established with legal authority anywhere in the United States.

As the name implies, a pet trust is a legally sanctioned arrangement that provides for the care and maintenance of one or more companion animals. Typically, the pet owner—called either the "grantor" or "settlor"—sets up the trust and designates a trustee to hold assets for the benefit of the pet. The trustee makes payments out of the trust funds as needed.

Depending on state law, a pet trust may last as long as 21 years or until the death of the pet, whichever comes first. In some states, the trust may continue even longer than 21 years.

The trust may provide specific instructions regarding the care of the pet that the trustee will be required to carry out. For example, if you own a cat that prefers a certain brand of food or your dog enjoys regular romps in the park, those particulars may be included in the trust. You also can impose requirements for regular visits to a vet.

Just like a trust for an elderly person, a pet trust may provide instructions for care in case the animal becomes ill or otherwise incapacitated. You know your pet better than anyone else, so describe the type and length of care your pet should receive.

Besides designating a trustee, as

Seven Good Reasons To Create And Fund A Trust

Who needs a trust? Maybe a better question is: Who doesn't? Trusts can be an essential part of an estate plan for anyone who owns significant assets. Reasons for establishing and funding a trust may range from gaining protection from creditors to saving on taxes. A trust can also create a legacy.

There are many different types of trusts, some of which are revocable—you retain certain rights over trust assets—while others are irrevocable, requiring you to cede all control. And some trusts are complex while others are simple. Although every situation is different, consider these seven potential benefits of have a trust.

1. Avoiding probate. Assets distributed according to the provisions of your will must go through a process known as probate, governed by state law. In some states, this can be extremely lengthy and costly, especially if your will is contested. What's more, your will is open to public inspection—anyone can find out what you're giving to which beneficiaries. Assets transferred to a trust, however, are exempt from probate. When you die, the trustee of a trust can quickly—and privately—distribute your worldly goods to the beneficiaries you've chosen.

2. Protecting assets from creditors. Irrevocable trusts are often used to protect personal assets from creditors. That could be helpful if you (or your beneficiaries) work in a profession in which you might be sued or if you have large debts. But keep in mind that an irrevocable trust is permanent—you can't change your mind.

3. Deterring spendthrift family members. If you would like to leave assets to a someone—perhaps a young child or grandchild—you might be concerned about what will happen when that young person gets his or her hands on the money. A trust can include restraints that may deter profligate spending. For instance, you might set up a trust to dole out amounts at regular intervals, with a lump sum coming when a minor is mature enough to handle the wealth. Or you might impose specific requirements for gaining access to the funds—for example, completing a college degree.

4. Authorizing "dead-hand" control. This basically means that the conditions that a trust imposes will remain in effect after you've passed away. So, for example, that youngster might not finish college until years down the road. But maintaining this kind of control may not have the desired effect, or the trust could be subject to legal challenges if its conditions violate public policy.

5. Shifting responsibility for your investments. Usually, when you're investing for yourself, you shoulder most of the responsibilities. But transferring assets to a trust and placing them under the control of a trustee can relieve you of that burden. The trustee, who must meet certain fiduciary standards, then becomes responsible for managing the portfolio of trust assets and other property in the trust. Establishing a trust may also be a way to consolidate some investments.

6. Meeting charitable intentions. You can use a trust to direct donations to a charity both while you're alive and after your death. With a charitable remainder trust (CRT), your family can receive regular payments during your lifetime, with the remainder of the assets going to the charity when you die. A charitable lead trust (CLT) reverses that equation, providing current income to a charity and then directing the assets that remain at your death to your beneficiaries. In either case, establishing the trust is likely to reduce your taxes.

7. Saving estate taxes. A properly structured trust can maximize the available estate tax benefits on both federal and state levels. Federal law allows an unlimited marital deduction for transfers between spouses and a generous estate tax exemption ($5.45 million in 2016) for other transfers. Trusts can also utilize your generation-skipping exemption as well as providing future tax protection of your heirs.

There are other reasons why you might utilize a trust, but these seven are among the most common. What about you? Consult with your estate planning advisors to see which type of trust, or combinations of trusts, might best suit your needs. ●

well as a successor and contingent trustee, you should identify your pet to avoid any potential fraud problems; detail your pet's standard of living and care; determine the amount of funds needed for your pet's care; designate a remainder beneficiary in the event the funds in the pet trust aren't exhausted upon the pet's death; require periodic "inspections" by the trustee to ensure that the pet is being properly taken care of; and list instructions for the pet's burial or other disposition.

Best of all, a pet trust offers its owner peace of mind. Instead of leaving matters to chance, you will know that your long-time companion will be cared for until the end of its life. ●

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

(Continued from page 1)

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. ●

Milestone Financial Planning, LLC
2 Commerce Drive • Bedford, NH 03110 • (603) 589-8010

This newsletter is for informational purposes only. It is not to be construed as tax, legal, or investment advice. Information has been gathered from sources believed to be reliable, but individual situations can vary and you should consult with your investment, accounting and/or tax professional. ©2016 API