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Retirement Planning Insights

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Up Front

Expensive rocks and pumpkin spice everything

My older daughter has recently been into collecting rocks. Not just random rocks found in our yard or a park, but fancy stones and crystals.

She’s been slowly building her collection for about a year and has so far bought them mainly from local retail stores or on Etsy.

About a month ago, she saw a billboard for the “NJ Mineral, Fossil, Gem and Jewelry Show” that was going to be at the convention center 10 minutes away from our house. Needless to say, she wanted to go.

In the weeks leading up to the show, she diligently saved her allowances and made a budget for the rocks she wanted to buy and how much she wanted to spend; it was a proud financial planning moment for me.

When we got to the show, she was absolutely in heaven! One of the highlights was this $7,200 pair of geodes (no, we didn’t buy them):

In other news - now that it’s September, we’re officially in pumpkin spice season. There are two types of people in this world; 1) those who love pumpkin spice and 2) those who don’t. I’m proud to say I’m in the first category and I eagerly await the annual rollout of pumpkin spice everything.

Enjoy your September and make it as pumpkin spice-ish as possible! 😊

-Andy

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Retirement Planning News

The “percent of AUM” fee makes no sense

I recently wrote an article, **Why the Asset-Based Fee Model Has To Go,** in **www.rethinking65.com.**

In the article, I express my views on why it makes no sense for financial advisors to charge for their services based purely on the size of clients’ investable assets.

The majority of the industry charges clients a percentage of the size of their investment accounts. This is known as “percent of AUM,” where “AUM” stands for assets under management.

The fee has historically been about 1% of AUM, per year. In other words, if a financial advisor manages an account that’s $1,000,000 in size, the annual fee would be about 1% of that, or $10,000.

I frankly can’t come up with a defensible reason why the percent of AUM fee model is still used by so many advisors. In my opinion, it’s a horribly illogical and unfair way to set a fee.

Advisors will cite a few reasons why they feel the percent of AUM model makes sense. However, as detailed in the article, those justifications are weak, at best.

In no other professional service industry are fees based solely on clients’ net worth or investment account size. Yet, for some reason, the financial advisory world continues to tell itself it makes sense. Or at least, it continues to tell itself that percent of AUM makes more sense than alternative fee structures.

In the article, I summarize a few different fee structures that are more mutually equitable and rational than percent of AUM.

I admit there is no single “right” or “best” fee method for financial advisory services. However, I can confidently say charging purely on client account size is arbitrary and silly.

I truly feel it’s in the best interest of clients and the future of the advisory industry if we all stop pretending like the percent of AUM model is the right way to charge. There are alternative fee structures that are more logical and fair; let’s start using them.

Practical Retirement Planning

How to give to charity…tax-efficiently

If you’re charitably inclined, there are some ways you can help maximize your tax savings of the donations:

- If you routinely make charitable donations every year but use the standard deduction on your tax return, you could be better off by “bunching” your donations.

  For example, if you normally give $10,000 every year to charity, perhaps consider instead giving $30,000 every three years. In the years of your bunched donations, you are more likely to have itemized deductions that are larger than the standard deduction, hence lowering your tax bill for the year.

- Consider opening a Donor Advised Fund, or “DAF,” if you plan on bunching donations.

  On the surface, a DAF looks and feels like a normal investment account. However, it’s technically its own charitable organization. Since it’s a qualifying charitable organization, any money you put into a DAF is a

tax-deductible donation. However, the money you put in doesn't need to immediately be sent to other charities. Instead, you can keep the money in the DAF, invest it to let it grow, and then distribute the money out to other charities at some point in the future.

- If you're at least 70 ½ years old and have a tax-deferred IRA, you can make cash donations via Qualified Charitable Distributions, or "QCDs."

  A QCD is when you directly donate money from your IRA to a qualifying charitable organization. Not only is the amount of the QCD not considered a taxable distribution to you, but it's also allowed to take the place of any Required Minimum Distributions, or "RMDs," you'd otherwise have to take.

- Consider donating highly appreciated securities from your taxable brokerage account.

  Perhaps you have some stocks, bonds, mutual funds, etc. that you've held in your brokerage account for a long time, and they've since built up a lot of unrealized gains. If you were to sell the positions, you'd have to pay tax on the gains. Alternatively, you can donate the securities to a charity. When donated, neither you nor the charity has to pay tax on the gains.

For more information about these tax-efficient charitable donation strategies, check out the live video I recently did in my Facebook group, **Taxes in Retirement:**

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