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REYNOLDS & Associates

Preview

The New Retirement
Five Things to Do Today

Preview

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The New Retirement: Five Things to Do Today
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Introduction

Our Commitment

Our organization is committed to helping people evaluate their financial situations and giving them the tools to help them make informed decisions. As part of that commitment, we use workshops to provide individuals with sound financial information. This will help you identify your goals and make wise decisions to improve your financial situation.

We follow up this session with a meeting in our offices. This is a complimentary consultation that we offer to everyone who attends our workshops. During that consultation, we can discuss any questions you have as a result of the workshop. If you prefer, we can use that time to examine your specific situation and begin the process of helping you formulate a financial strategy that will suit your needs.

About Your Workbook

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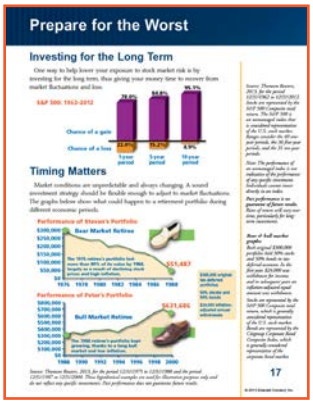
The workbook is designed to help you apply what you learn to your specific situation. It's yours to keep. It reinforces the workshop's major points and will be a valuable resource for you.

Throughout the workbook, you'll see informative graphics. They come directly from the workshop slides, making it easy for you to follow the presentation. Later, these graphics will be reminders of the workshop's important points.



The workbook has wide margins so you can take notes. Feel free to underline or circle items you may have questions about.

You'll find helpful exercises, worksheets, and self-analysis quizzes in the workbook. These materials will make your workshop experience interesting, informative, and most important, valuable.

Seize the Day

This workbook focuses on five things you can do right now to take control of your financial situation and prepare for the future.

If you don't make the commitment to do something now, days can turn to weeks, week to months, and before you know it, another year has passed with no progress.

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Be Honest with Yourself

5 Things to Do Today

1. Be honest with yourself
2. Know where your money is
3. Set realistic expectations
4. Prepare for the worst
5. Establish a life plan

Who Are You?

When it comes to your finances, one of the first steps is to understand your own tendencies and comfort zones. Are you a risk-taker? Do you prefer a "sure thing"?

For example, would you rather have:

- $3,000, with no strings attached?

Or ...

- A 50% chance at $10,000 or nothing?

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Behavioral Finance

The field of behavioral finance studies how our personal emotions and financial preconceptions can influence our decision-making processes when it comes to money.

The data supporting behavioral finance is not without controversy. However, having a passing familiarity with this concept can help you remember to take a step back from your financial decisions and ask yourself: "What am I basing this decision on? Am I making the best objective choice based on the knowledge I have?"

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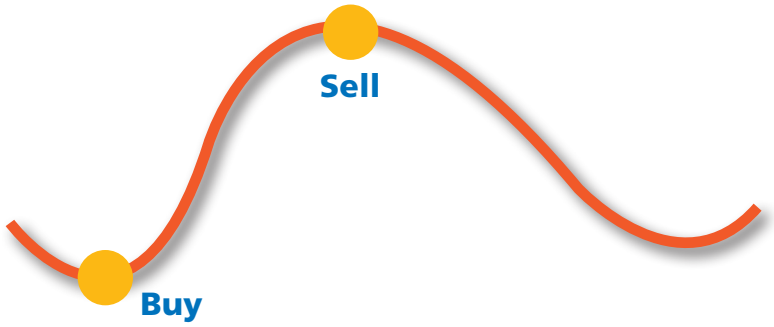
Be Honest with Yourself

What You *Should* Do

This hypothetical graph shows how an investor should behave during a market cycle. This is the recommended "buy low, sell high" strategy.



What Happens Too Often

Unfortunately, investors have a tendency to buy their equities high and sell them low. Stocks can be tempting to buy when prices are rising. There's a feeling that equities that have done well are good places to put money. But it may be too late by then. Most of the gains may already have been made.

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What Does It Mean?

The type of person you are may influence your approach to personal finances. This can be good or bad. For most of us, it's a combination of the two.

If you are overly risk-averse, you may miss opportunities for higher returns that can help you outpace inflation over time. However, if you expose your money to too much risk, you could suffer losses from which you may not be able to adequately recover.

As you develop personal financial strategies, it is important to be aware of your strengths and weaknesses. Remember that no one is good at *everything*.

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Be Honest with Yourself

How much risk are you willing to take? Generally, the more potential for growth offered by an investment, the more risk it carries. This quiz will help you assess your own ability to withstand risk.

RISK TOLERANCE QUIZ

1. Which of the following investments do you feel most comfortable with?
   a. Certificate of deposit
   b. High-grade corporate bond
   c. Growth stock

2. Of the following stocks, which do you feel would most suit your needs?
   a. A conservative utility stock that pays high dividends but offers little chance for long-term growth
   b. A blue-chip stock that offers the potential for modest dividends and growth
   c. An aggressive small-company stock that pays no dividends but offers great potential for long-term growth

3. What have you traditionally considered most important from your investments?
   a. Safety
   b. Conservative growth
   c. Maximum growth

4. You just made a $100,000 investment. The following amounts represent the estimated best-case and worst-case scenarios after one year. Which range of possible outcomes would you prefer?

	best case	worst case	possible gain/loss
a.	$104,000	$96,000	$ 4,000
b.	$108,000	$92,000	$ 8,000
c.	$112,000	$88,000	$12,000

5. Which statement most closely resembles your feelings about risk?
   a. I am not willing to take risks with my investments.
   b. I am willing to take limited risks with my investments.
   c. I am willing to take substantial risks with my investments.

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Scoring Give yourself: 10 points for every "a" answer
20 points for every "b" answer
30 points for every "c" answer

50–80
You are a relatively low-risk investor. You are mostly concerned with the preservation of your capital and the potential for current income. You are not willing to risk your capital for greater potential returns.

90–110
You are generally conservative, but you recognize the need to consider growth-oriented alternatives. You may be willing to take modest risk to earn above-average, long-term returns.

120–150
You may be a relatively high-risk investor. You are mostly concerned with long-term appreciation, and you may be willing to take on more risk to earn greater long-term potential returns.

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Know Where Your Money Is

Asset allocation does not guarantee against investment loss. It is a method used to help manage investment risk.

Whether You Know It or Not...

You have already allocated your assets

But is the allocation appropriate for your needs, risk tolerance, and investment objectives? Why have you selected the mix of investments you now have? Do you feel adequately diversified?

My Asset Allocation Looks Like...

Take a moment to divide up your portfolio using this pie chart to show your current asset allocation. You can do this by asset class (such as stocks, bonds, real estate, cash alternatives), or you can do it by type of investment account (such as 401(k) plans, IRAs, brokerage accounts, bank savings).

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Is Your Current Allocation a Mess or a Masterpiece?

- **What are you investing for?**
- **Are you on the right track?**

The goal is to construct a portfolio that gives you adequate earning potential, balanced by your own level of tolerance for investment risk.

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Know Where Your Money Is

How much are you worth? Just as corporations prepare a balance sheet to determine their current net worth, you may want to complete a personal balance sheet.

NET WORTH WORKSHEET

Tangible Assets	
Residence	$
Vacation home	$
Furnishings	$
Automobiles	$
Rental real estate	$
Art, jewelry, or other valuables	$

Debt Assets	
U.S. government bonds and agency securities	$
Municipal bonds	$
Corporate bonds	$
Face amount certificates	$
Debt mutual funds	$

Cash and Cash Alternatives	
Checking accounts	$
Savings accounts	$
Money market funds	$
Certificates of deposit	$
Other cash reserve accounts	$
TOTAL ASSETS *(Add tangible, equity, fixed principal, debt assets, and cash)*	$

Equity Assets	
Qualified retirement funds	$
Stocks	$
Equity mutual funds	$
Variable life insurance (cash value)	$
Variable annuities	$
Limited partnerships	$
Business interests	$

Liabilities	
Home mortgage	$
Other mortgage	$
Automobile loans	$
Bank loans	$
Personal loans	$
Charge-account debt	$
Other debts	$
TOTAL LIABILITIES	$

Fixed-Principal Assets	
Fixed-interest annuities	$
Life insurance (cash value)	$
Other assets	$

NET WORTH	
Total assets	$
Total liabilities	$
NET WORTH *(Subtract your liabilities from your assets)*	$

Set a goal for yourself.

What would you like your net worth to be in 5 years? $ _____

What would you like it to be in 10 years? $ _____

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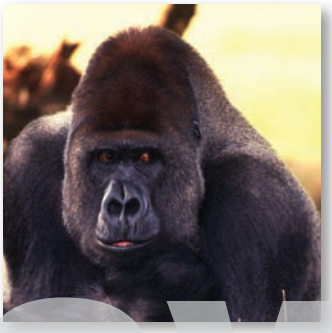
Know Where Your Money Is

Understand Asset Classes

A basic first step is to understand the different asset classes and their general characteristics. All assets can be grouped into one of five general categories:

- **Cash**
- **Fixed principal**
- **Debt**
- **Equity**
- **Tangibles**

Retirement Plans: The 800-Pound Gorilla



The majority of the money you have accumulated in your life may be held in tax-deferred retirement plans, such as 401(k) plans and IRAs.

What plans are available to you now? What are the investment options in those plans? How does your allocation of the assets in those plans coordinate with your other savings and investments?

Remember that distributions from traditional IRAs and most employer-sponsored retirement plans are taxed as ordinary income. Early withdrawals (prior to age 59½) may be subject to a 10 percent federal income tax penalty.

"E Pluribus Unum"

If you have multiple retirement plans from former employers, you may want to consider consolidating them into one account. There are several advantages associated with an IRA rollover:

- **Continued tax deferral**
- **More investment choices**
- **Simplified fees and recordkeeping**
- **Potential for beneficiaries to "stretch" savings**

The 13-letter Latin phrase "E Pluribus Unum" appears on U.S. currency. The motto means "Out of many, one." It was first used on coinage in 1795 after the 13 colonies integrated into one united country.

This term can also be applied to retirement accounts, because there are advantages to consolidating multiple accounts into a single IRA.

Source: U.S. Department of the Treasury

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Know Where Your Money Is

Roth vs. Traditional Retirement Savings

When you transfer employer-plan assets to an IRA, you'll have to decide whether to roll them to a **traditional IRA** or convert them to a **Roth IRA.**

The main difference in IRAs is the taxability of contributions and withdrawals. Traditional IRAs are typically funded with tax-deductible dollars, and withdrawals are subject to ordinary income tax. Roth IRAs are funded with after-tax dollars, but qualified distributions are free of federal income tax. Direct rollovers to a traditional IRA are tax deferred. If you roll over employer-sponsored plan assets to a Roth IRA, you have to pay ordinary income tax on any tax-deferred amounts converted (in the tax year converted), but future qualified withdrawals will be tax-free.

Employers are now able to offer **Roth 401(k)** and **Roth 403(b)** plans. If your employer is offering this option, you should consider how much of your contributions to allocate to a traditional account versus a Roth account. The annual contribution limit applies to the *combined* contributions to both account types; however, any matching employer contributions can be made only to a traditional account.

Preview

Distributions from traditional IRAs and most employer-sponsored retirement plans are taxed as ordinary income and may be subject to a 10 percent federal income tax penalty if taken prior to age 59½. To qualify for the tax-free and penalty-free withdrawal of earnings (and assets converted to a Roth), Roth IRA distributions must meet the five-year holding requirement and take place after age 59½; exceptions include the owner's death, disability, or a qualified first-time home purchase ($10,000 lifetime maximum).

Roth vs. Traditional IRA Payouts

Here is a hypothetical example of the difference in payouts between a Roth IRA and a traditional IRA. Remember that a Roth IRA is funded with after-tax dollars, whereas a traditional IRA is usually funded with pre-tax dollars.

Assumptions:

$500,000 beginning balance in both accounts
4% annual rate of return
28% tax bracket
Distributions based on 20-year retirement

	Annual After-Tax Distribution	Total Income Received (20 years)
Traditional IRA	$20,694	$413,885
Roth IRA	$28,742	$574,840
Difference: $160,955		

This hypothetical example is used for comparison purposes only and does not represent any specific investments. The returns shown do not reflect investment fees or expenses. The example assumes that distributions from the traditional IRA are taxed as ordinary income; qualified distributions from the Roth IRA are tax-free. Actual results will vary.

This example focuses only on distributions from both types of accounts. It does not consider that the account owner of a traditional IRA would have benefited earlier by contributing pre-tax dollars.

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Know Where Your Money Is

Generating Income in Retirement

When the time comes for you to retire, you will need to generate income from the assets you have accumulated. This is a part of preparing for retirement that many people overlook. One strategy to consider is an annuity, which provides an option for an income that can last a lifetime.

Annuities

An annuity is a long-term financial vehicle designed for retirement purposes. It is a contractual agreement in which one or more payments are made to an insurance company, which agrees to pay an income or a lump-sum amount at a later date. There are several different types of annuities.

Fixed annuities offer a fixed rate of return. Rates may be adjusted, but they will never fall below a guaranteed minimum rate specified in the contract. Guarantees are contingent on the claims-paying ability of the issuing insurance company.

Variable annuities offer variable returns. You can divide your premiums among a variety of investment "subaccounts" whose value will fluctuate with market conditions. Your return is not guaranteed but rather is based on the performance of the subaccounts that you select. Investors run the risk of losing accumulated earnings and even principal.

Variable annuities are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the variable annuity contract and the underlying investment options, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

The performance of an **indexed annuity** is tied to a market index such as the S&P 500. When the index rises, so does the return on the annuity. But if the index tumbles, typically the worst the annuity can do is earn the contract's minimum guaranteed rate of return. This minimum guarantee is contingent on holding the indexed annuity until the end of the term.

The guarantees of indexed annuities may cover only a specific percentage of the initial investment, so it is possible to lose money. The percentage of an index's gain that investors receive is called the *participation rate.* An 80 percent participation rate means that only 80 percent of the gain experienced by the index for that year would be credited to the contract owner. Some indexed annuities have a *cap rate,* which is the maximum rate of interest the annuity will earn. Insurance companies reserve the right to change participation rates, cap rates, and other fees either annually or at the start of each contract term. This could affect the investment return. It is prudent to review how the contract handles these issues before deciding whether to invest.

There are contract limitations, fees, and charges associated with annuities, which can include mortality and expense risk charges, sales and surrender charges, investment management fees, administrative fees, and charges for optional benefits.

Most annuities have surrender charges that are assessed during the early years of the contract if the owner surrenders the annuity.

Withdrawals of annuity earnings are taxed as ordinary income and may be subject to a 10% federal income tax penalty if made prior to age 59½.

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Know Where Your Money Is

Some Annuities May Offer Living Benefits

For an additional cost, you may be able to purchase living benefits:

- **Guaranteed minimum accumulation benefit**
- **Guaranteed minimum withdrawal benefit**
- **Guaranteed minimum income benefit**

Note that any such guarantees are contingent on the claims-paying ability of the issuing insurance company. Variable annuities are not guaranteed by the FDIC or any other government agency and are not guaranteed or endorsed by any bank or savings association. Withdrawals reduce annuity contract benefits and values.

Income Today, Income Tomorrow

Preview

The concept of "income today, income tomorrow" combines immediate fixed annuities with conservative and growth investments to produce a potentially continuous income stream.

As you can see below, the immediate fixed annuity can provide a stable income for a specific period (such as five years), while the other investments have the potential to grow in value and eventually replace the income from the original fixed annuity. This hypothetical example covers a 10-year period, although the concept can be extended over a longer period of time.

This hypothetical example is used for illustrative purposes only. Investments offering the potential for higher rates of return involve a higher degree of investment risk.

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Set Realistic Expectations

You vs. the Economy

Although *you* may make all the right financial moves, the economy might not be so cooperative.

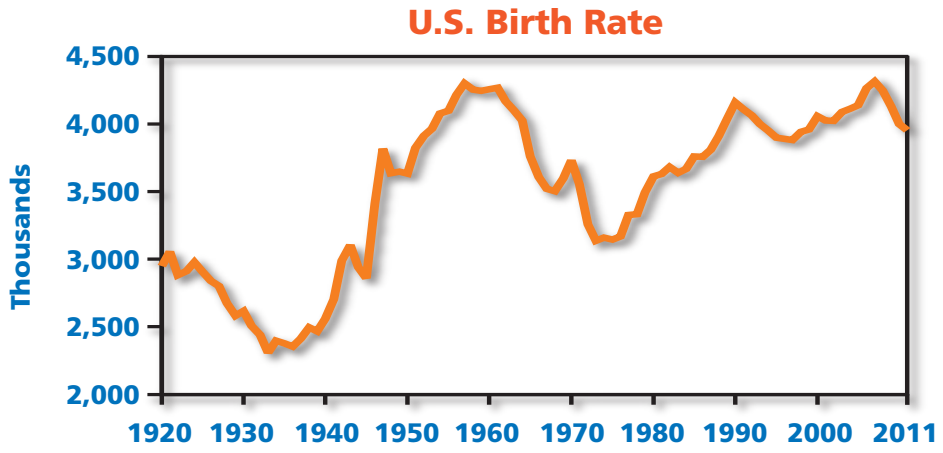
- **Bear markets and recessions**
- **Changing tax laws**
- **Growing national debt**
- **New industries replacing old**
- **Energy prices and inflation**
- **War and terrorism**

Will all these factors affect you directly? Probably not. Will one or two or more? Very possibly. Part of setting realistic expectations is understanding that you will probably encounter, and need to overcome, more than one financial setback or stumbling block during your lifetime.

Preview

Aging Baby Boomers

One factor that could have a substantial effect on the economy is the aging of the baby-boomer generation, who were born between 1946 and 1964.



In the next 20 years, what's going to happen to the baby boomers? They are already starting to retire. As you can see from the dip in the birth rate on the graph, there will be fewer workers in the next generation to help support these retired boomers.

Source: National Center for Health Statistics, 2012

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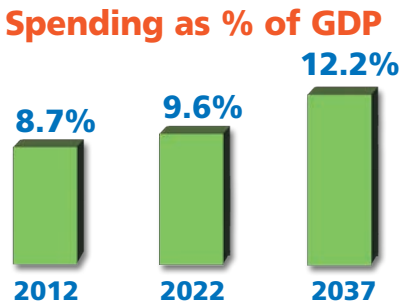
Set Realistic Expectations

Entitlement Program Spending

As the baby-boomer generation signs up for Medicare and starts taking Social Security retirement benefits, it is projected that federal entitlement spending (as a percentage of gross domestic product) will increase from 8.7 percent in 2012 to 9.6 percent in 2022. Eventually, entitlement spending could reach 12.2 percent by 2037.



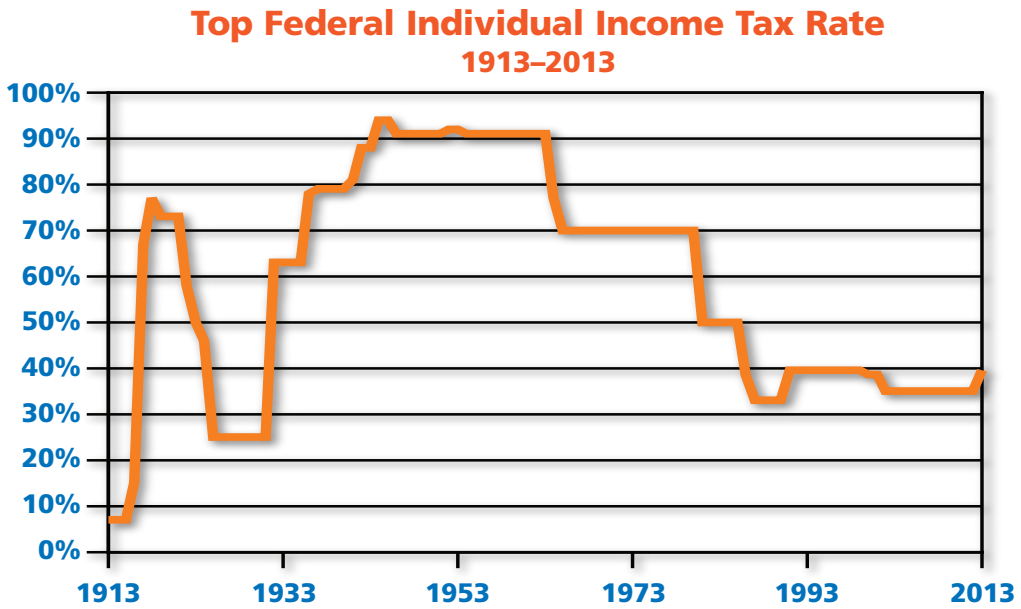
As more of the government's funds are absorbed by Social Security and Medicare commitments, the government will either have to cut back dramatically on the other services it provides, or large tax increases may be needed to pay for other expenses.

Source: Congressional Budget Office, 2012

What About Tax Rates?

Meanwhile, federal income tax rates today are at historic lows. You can see from this graph that the top federal tax rate has at times exceeded 90 percent! The top federal income tax rate is currently 39.6 percent.

Preview



The American Taxpayer Relief Act of 2012 retained the lower federal income tax rates that had been in effect since tax laws were enacted in 2001 and 2003, but it raised the top income tax rate from 35% to 39.6%. This affects single filers with adjusted gross incomes exceeding $400,000 ($450,000 for married joint filers).

Given all these factors, what would you expect to happen to income tax rates over the coming decades?

Source: Internal Revenue Service, 2013

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Set Realistic Expectations

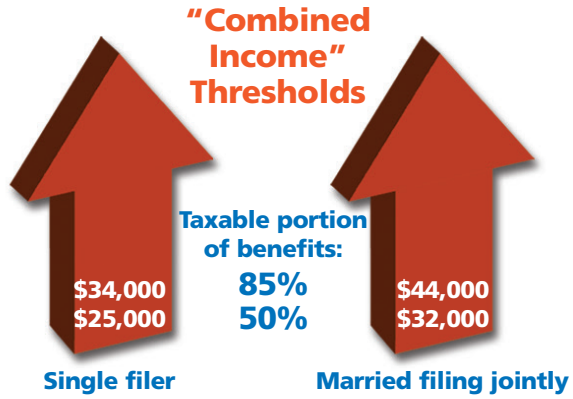
Social Security Has "Issues"

In most years prior to 2010, Social Security payroll tax revenues exceeded outlays, but annual surpluses were spent as part of federal government general revenues and "IOUs" were issued to the Social Security Administration. As entitlement spending rises, projected trust funds are moving from a former surplus to a deficit. Unless changes are made, Social Security will be paying out more in benefits than its total annual income — payroll taxes plus interest earnings on trust fund assets — by 2021, and the trust fund IOUs (if paid back) would last only until 2033.

Source: Social Security Administration, 2012

And Your Benefits May Be Taxed

Remember, the 50 percent and 85 percent rates shown on the chart represent the *taxability* of your Social Security benefits. They are not tax rates. Ordinary federal income tax rates, such as 15 percent and 28 percent, will apply to this taxable portion of your benefits.



Do You Have a Pension?

Does your employer currently offer a pension plan? Traditional defined-benefit plans (employer-paid pensions) are becoming increasingly rare, especially in the private sector. Employers are transferring the responsibility for funding retirement to employees, who may have the option of contributing their own funds to a defined-contribution plan such as a 401(k). If you are fortunate enough to work for an employer that still provides a traditional pension, is the plan in good financial condition? Will the benefit be there when you need it?

You'll Need More Then Than You Need Now

In 1972, the average price of a new house was $30,500, about the same as the average price of a new car in 2013 ($30,958).[1–2]

If you are 20 years away from retirement, you will need more annual income than you need today, in terms of constant dollars, due to the effects of inflation.

Assuming a 4% annual inflation rate, in 18 years you would need $2 to purchase what costs $1 today. So if you need a $75,000 income to maintain your lifestyle today, in 20 years you'd need more than $150,000. This hypothetical example is intended to show how inflation works over time. Actual results will vary.

Sources:
1) TrueCar.com, 2013
2) U.S. Census Bureau, 2012

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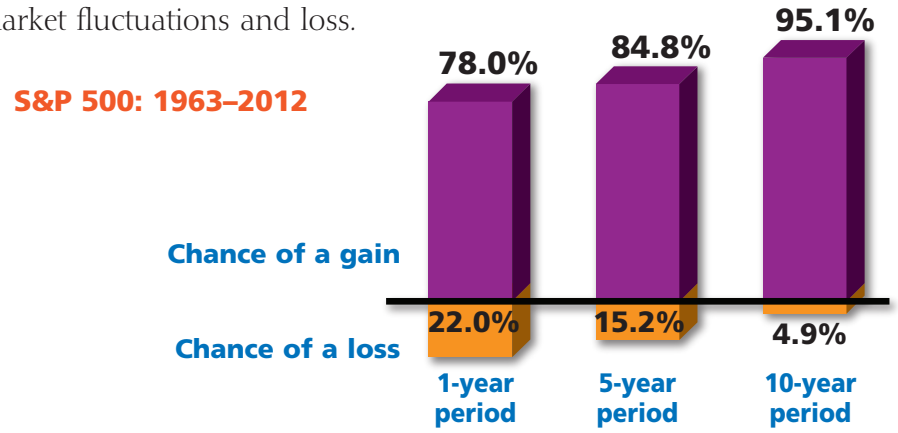
Prepare for the Worst

Investing for the Long Term

One way to help lower your exposure to stock market risk is by investing for the long term, thus giving your money time to recover from market fluctuations and loss.



Source: Thomson Reuters, 2013, for the period 12/31/1962 to 12/31/2012. Stocks are represented by the S&P 500 Composite total return. The S&P 500 is an unmanaged index that is considered representative of the U.S. stock market. Ranges consider the 50 one-year periods, the 46 five-year periods, and the 41 ten-year periods from 1963 through 2012.

Note: The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index.

***Past performance is no guarantee of future results.** Rates of return will vary over time, particularly for long-term investments.*

Timing Matters

Market conditions are unpredictable and always changing. A sound investment strategy should be flexible enough to adjust to market fluctuations. The graphs below show what could happen to a retirement portfolio during different economic periods.

Bear & bull market graphs:
Both original $300,000 portfolios held 50% stocks and 50% bonds in tax-deferred accounts. In the first year, $24,000 was withdrawn for income, and in subsequent years an inflation-adjusted equal amount was withdrawn.

Stocks are represented by the S&P 500 Composite total return, which is generally considered representative of the U.S. stock market. Bonds are represented by the Citigroup Corporate Bond Composite Index, which is generally considered representative of the corporate bond market.

Source: Thomson Reuters, 2013, for the period 12/31/1975 to 12/31/1988 and the period 12/31/1987 to 12/31/2000. These hypothetical examples are used for illustrative purposes only and do not reflect any specific investments. Past performance does not guarantee future results.

Preview

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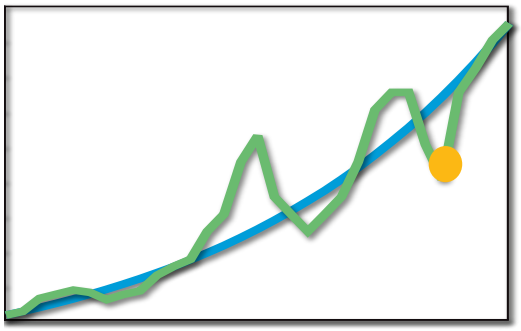
Prepare for the Worst

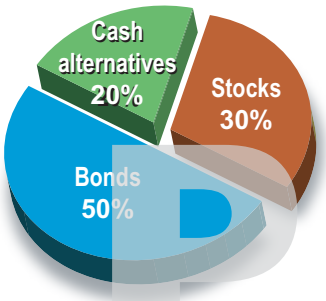
Average Annual Return vs. Reality

This hypothetical example is used for illustrative purposes only and does not represent the performance of any investment product or asset class.

In reality, most investments don't perform at a constant rate of return. Annual rates of return will vary over time, and some years may produce negative returns. What would happen if you needed to withdraw funds from your portfolio during a bear market?



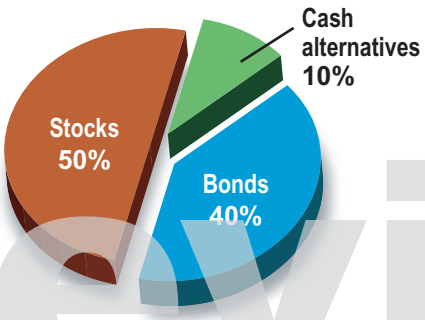
Sample Portfolios



Conservative

Time frame: 20 years

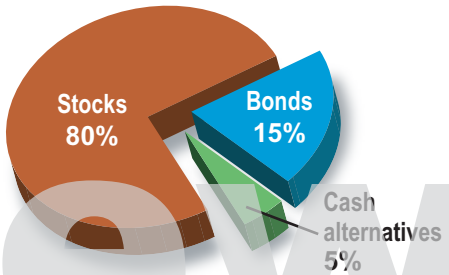
Primary goal: minimize volatility



Moderate

Time frame: 20 years

Primary goal: pursue moderate growth while managing volatility



Aggressive

Time frame: 20 years

Primary goal: pursue growth

Preview

These hypothetical portfolios are examples, not recommendations.

Taxes and Inflation vs. Purchasing Power

What is the real rate of return on an investment after you take into account both taxes and inflation?

	EXAMPLE	YOU
1. Initial investment	$10,000	$_____
2. Rate of return	4%	_____%
3. Amount earned *(line 1 x line 2)*	$ 400	$_____
4. Federal income tax bracket	28%	_____%
5. After-tax return *[line 3 – (line 3 x line 4)]*	$ 288	$_____
6. Net value of account after taxes *(line 1 + line 5)*	$10,288	$_____
7. Inflation rate	3%	_____%
8. Value of account after inflation and taxes *[line 6 ÷ (100% + line 7)]*	$ 9,988	$_____
9. Real rate of return *[(line 8 – line 1) ÷ line 1]*	–0.12%	_____%

This hypothetical example is used for illustrative purposes only. Its performance is not indicative of any particular investment.

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Establish a Life Plan

Where Would All Your Money Go?

Estate conservation isn't really a "death plan"; it's more of a life plan. It involves providing for your survivors in the event of your death and determining what should happen with the product of your life's work and everything you own.

Will the people who depend on you for support today continue to be taken care of?

Estimating Your Estate Tax Liability

This worksheet will help you estimate the federal estate tax that may be due on your estate after you die.

	EXAMPLE	YOU
1. Gross value of estate	$ 6,000,000	$
2. Deduct allowable debts, expenses, deductions	$ 500,000	$
3. Net value of estate	$ 5,500,000	$
4. Deduct federal estate tax exemption	$ 5,250,000	$
5. Taxable value of estate	$ 250,000	$
6. Multiply by federal estate tax rate	40 %	40 %
7. Total estate tax due	$ 100,000	$

The hypothetical example above is used for illustrative purposes only. It uses the 2013 federal estate tax exemption and the 40% federal estate tax rate.

Estate taxes are due on the total value of your estate — everything you own, whatever the form of ownership and regardless of whether the assets have been through probate. Your estate includes your home, stocks, bonds, life insurance, and anything else of value that you own. Also consider that many states and the District of Columbia levy state or inheritance taxes on property that passes from the deceased to the living.

The American Taxpayer Relief Act of 2012 permanently extended the higher estate tax exemption ($5 million, indexed annually for inflation) from the 2010 Tax Relief Act. However, it raised the federal estate tax rate from 35 percent to 40 percent. Due to inflation, the applicable exemption rose to $5.25 million in 2013. The 2012 tax law also made permanent the portability of any unused federal estate tax exemption between spouses if specific conditions are met.

The annual gift tax exclusion is $14,000 per person per year. The full amount of the applicable estate tax exemption is available at death only if there have been no prior taxable gifts.

Given the uncertainty of taxes, you might want to consider strategies to help reduce your potential tax liability.

Always seek the assistance of a tax or legal advisor regarding your individual circumstances.

Preview

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Establish a Life Plan

Your Spouse

Surviving spouses benefit from the **unlimited marital deduction**. The federal government exempts all transfers of wealth between a husband and wife from federal estate and gift taxes. This means that, regardless of the size of the estate, there will be no federal estate taxes levied when a husband or wife dies and leaves his or her wealth to the surviving spouse. The surviving spouse must be a U.S. citizen to qualify for this exemption.

Your Beneficiaries

Some of your assets will go to whomever you have named as the designated beneficiaries of specific accounts and policies, regardless of instructions in a will.

- **Employer retirement plans**
- **IRAs**
- **Life insurance policies**

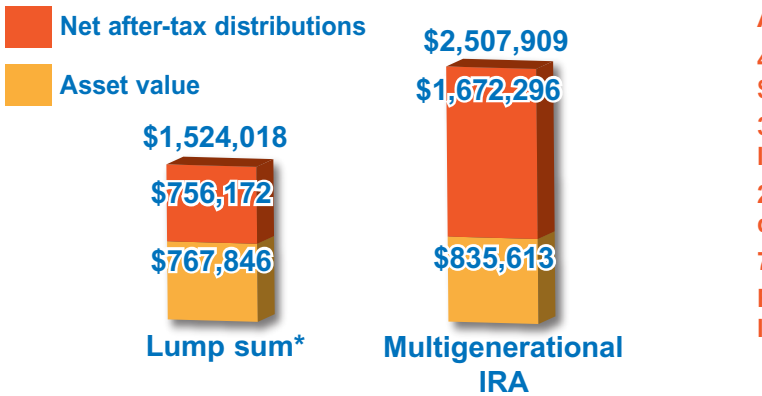
It's important to keep your beneficiary designations up-to-date. Many people name a beneficiary when they establish an account but fail to update the designations when major events occur in their lives.

Preview

Using a Stretch IRA Strategy

Passing an IRA to your heirs can significantly increase the long-term value of your legacy. To benefit from this approach, it's important that beneficiaries of inherited IRAs not overlook the rules for taking required minimum distributions (RMDs) or they will face a hefty income tax penalty.

This hypothetical example compares two potential outcomes for a 45-year-old who inherits a $500,000 traditional IRA: a lump-sum distribution versus taking RMDs from a stretch ("multigenerational") IRA over his lifetime.



Assumptions:

- 45-year-old beneficiary of $500,000 traditional IRA
- 35% tax bracket for initial lump-sum distribution
- 28% tax bracket for other distributions
- 7% annual rate of return
- RMDs taken over 40-year life expectancy

*For comparison purposes, this assumes that the lump-sum proceeds were reinvested at 7% and annual withdrawals were taken over 40 years.

Nonspouse IRA beneficiaries must begin taking RMDs from inherited IRAs no later than December 31 of the year after the original IRA holder's death. Failing to take an RMD could subject funds that aren't distributed correctly to a 50% federal income tax penalty. Distributions of traditional IRAs are taxed as ordinary income.

This hypothetical example is used for illustrative purposes only and does not represent any specific investment. It assumes a 45-year-old beneficiary in the 28% tax bracket, a 7% annual rate of return, and a 40-year life expectancy. Rates of return will vary over time, especially for long-term investments. Actual results will vary.

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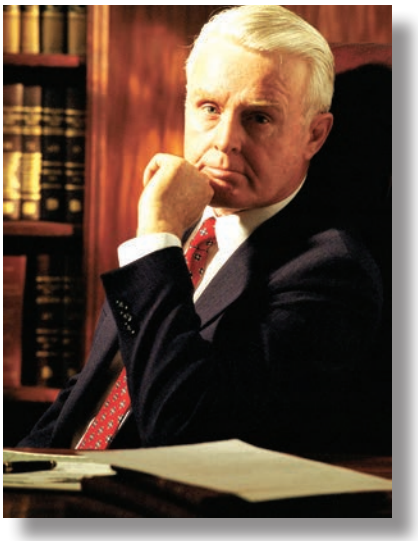
Establish a Life Plan

Spend Some Money: See a Lawyer



Here are a few of the important estate planning documents you may need.

- **Power of attorney**
- **Durable power of attorney**
- **Medical durable power of attorney**
- **Living will**
- **Will**
- **Trust records**

These documents provide a roadmap that your heirs can follow. Estate documents should be kept up-to-date and in a secure place that is known to family members and/or trusted professionals.

Preview

Advanced Trust Strategies

If properly structured, certain types of trusts can be used to help shield assets from estate tax liability. Some trusts can completely avoid probate.

- **A-B trust** — A revocable trust with an A-B provision (bypass trust) enables both spouses to take advantage of the applicable estate tax exemption, allowing them to pass on up to twice the applicable amount free of federal estate taxes.*
- **Irrevocable trust** — An irrevocable trust may also help you reduce estate taxes on assets valued at more than twice the applicable exemption amount, but you will have to give up control of those assets.
- **Irrevocable life insurance trust** — This type of trust enables you to use life insurance to help provide funds for your heirs to pay taxes on your estate that cannot be avoided.

The use of trusts involves a complex web of tax rules and regulations. You should consider the counsel of an experienced estate planning professional before implementing such strategies.

**Because current estate tax rules allow portability of the estate tax exemption between spouses (if conditions are met), some people may think a bypass trust is no longer needed. However, there may be other reasons to consider a bypass trust:*

- *To shelter appreciation of assets placed in the trust*
- *To protect the assets from creditors*
- *To benefit children from a previous marriage*
- *To help avoid probate*

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Establish a Life Plan

Everyone's "Favorite" Subject: Life Insurance

The primary purpose of a life insurance policy is the death benefit. You should purchase life insurance only if you have a need for a death benefit.

In addition to the death benefit, there are a number of features and options available with life insurance policies, including several different types of cash-accumulation features.

Today, a wide variety of policies are available, ranging from simple term policies to sophisticated permanent policies with multiple investment choices and optional riders.

LIFE INSURANCE WORKSHEET

How much life insurance would your family need to maintain its comfortable lifestyle over the long term?

Preview

1. Calculate your dependents' total annual living costs.
   (Include all mortgage and loan payments) $_____

2. How much annual income would be available to them?
   - A. Spouse's income $_____
   - B. Investment income $_____
   - C. Social Security $_____
   - D. Pension $_____
   - E. Other income $_____
   - F. Total income available $_____ $_____

3. How much more income will your family need?
   (Subtract the total on line 2F from line 1) $_____

4. What return could they expect on investments? _____ %

5. Resulting life insurance benefit
   (Divide total on line 3 by the rate of return on line 4) $_____

For example, if your family requires an additional $28,000 per year (line 3), you would divide that amount by an expected annual return, such as 7% (line 4). In this case, $28,000 divided by .07 equals $400,000 in coverage. You may want additional coverage if you need funds for a child's college education.

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Establish a Life Plan

Irrevocable Life Insurance Trust

Federal estate taxes are due within nine months of death, which can create a liquidity problems for heirs. An irrevocable life insurance trust is a popular way to provide for the payment of estate taxes that cannot be avoided. With this strategy, an insurance policy is purchased and placed in an irrevocable trust.

- **Keeps policy proceeds out of the taxable estate**
- **Allows proceeds to pass on free of federal estate taxes**
- **Provides ready cash for heirs to pay estate taxes or other fees**

Life insurance policy | **Irrevocable trust** | **Proceeds free of estate taxes**

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased.

As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications.

Before implementing a strategy involving life insurance, it would be prudent to make sure that you are insurable.

Preview

Don't Procrastinate!

Starting to save now can pay off later.

In this hypothetical example, Jim started saving early, whereas Susan procrastinated. In years 1 through 5, Jim invested $5,000 annually. After contributing $25,000, he stopped investing but left his funds to continue compounding. Susan waited five years, then began investing $5,000 annually in years 6 through 10. Both accounts earned a 6 percent annual rate of return.

Although Jim and Susan each invested a total of $25,000, their total accumulations were significantly different. Jim accumulated about 30 percent more, just because he started investing early.

Year	Jim Investment	Jim Value	Susan Investment	Susan Value
1	$ 5,000	$ 5,300	0	0
2	5,000	10,918	0	0
3	5,000	16,873	0	0
4	5,000	23,185	0	0
5	5,000	29,877	0	0
6	0	31,669	$ 5,000	$ 5,300
7	0	33,569	5,000	10,918
8	0	35,583	5,000	16,873
9	0	37,719	5,000	23,185
10	0	39,982	5,000	29,877
	Contributions:	$25,000	Contributions:	$25,000
	Earnings:	$14,982	Earnings:	$ 4,877
	Total value:	**$39,982**	**Total value:**	**$29,877**

This hypothetical example of mathematical compounding is used for illustrative purposes only and does not represent the performance of any specific investments. It assumes a 6% annual rate of return in both accounts. Rates of return will vary over time, particularly for long-term investments. Investments offering the potential for higher rates of return also involve a higher degree of investment risk. Actual results will vary.

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What to Bring

Please bring the following documents to your consultation:

1. _____
2. _____
3. _____
4. _____
5. _____

Preview

Your consultation is scheduled for:

_____

Date Time

REYNOLDS & Associates

broker-dealer disclosure
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