

# Heading To The Barn

*A Retirement Guide for Texans*



## Equiplan Financial Services

takes a comprehensive look at the factors surrounding retirement in Texas; from financial to legal to medical and provides a simple, straightforward and private way to evaluate your position in retirement

**By Michael E. Girouard**

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## Purpose of “INSIGHT” . . .

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**INSIGHT** - *noun*, the capacity to discern the true nature of a situation.

**INSIGHT** - *acronym*, **I**ncome, **N**ext of kin, **S**afety, **I**nflation, **G**rowth, **H**ealth, and **T**axes.

“Heading to the Barn” was designed by Michael E. Girouard to assist today’s current and future retirees in Texas understand what may be affecting their financial security today and in the future. INSIGHT, as a *noun*, will be yours by reading and getting involved with what this booklet deals with - your financial security. INSIGHT, as an *acronym*, identifies the key elements that all successful retirees need to address in order to ensure a long and fruitful retirement. As *Rutherford D. Rogers* once said: “We’re drowning in information and starving for knowledge.” Today there are almost too many sources of information. So much so that many retirees feel overwhelmed from all the choices of where to go for assistance. And in many circumstances decide to do nothing about improving their financial security. All of us have a plan for our future whether by design or default. The problem is that most of us choose the default plan and that is to do nothing at all. Hopefully, the information contained in this workbook will allow you to see the overall importance of taking action. Today’s retirees have many challenges facing them. But for those who seek out ways to overcome those challenges, they have the opportunity to make their retirement years the best years of their lives.

“Experience is the worst teacher, it gives  
the test before presenting the lesson.”

*Vernon Law*

## About Michael E. Girouard . . .

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### Professional

Michael E. Girouard is President and General Manager of ***Equiplan Financial Services*** and has worked with retirees for over 24 years. Working primarily with pre-retiree's and Seniors, Michael has assisted thousands of clients develop Financial and Estate plans to meet their needs in retirement. Also a licensed agent since 1986, he has access to and maintains relationships with all of America's top companies for Financial and Long-Term Care programs. As a practicing paralegal, Michael works directly with local Attorneys and Tax Professionals to provide his clients comprehensive and affordable Tax and Estate Planning solutions through the use of the Revocable Living Trust and other popular and effective Estate Planning tools.

### Personal

Michael graduated from Western New England College in Springfield, Massachusetts in 1982 with a Bachelors degree in Human Resource Management. He has lived in Rowlett, Texas for over 25 years with his wife Nancy of 28 years and their two sons. Michael donates a considerable amount of his free time to the **Boy Scouts of America** in Rowlett, Texas where he has served as Scoutmaster of Troop 1020 at First United Methodist Church; where he and his family are active members. He also maintains many close relationships with his friends and clients of many years.



Many of us will agree the previous quote from *Vernon Law*. What our parents experienced in their retirement has changed dramatically with what we will experience in our retirement. Because of that it is wise to try and stay involved in what can make our retirement experience better. An ancient philosopher said: "Tell me and I'll forget. Show me and I'll remember. Involve me, and I'll understand." With this in mind INSIGHT will allow you to be more involved in the process of creating and maintaining financial security. By no means does this mean it will cure any financial ailment. But it can assist you in finding out what may be ailing your financial security today or in the future. And for those of us who feel our financial security is just fine and are not looking to improve their financial positions, may this information be used to confirm that.

Planning *in* retirement can be as important as planning *for* retirement. So as the quote from *Howard Ruff*, a well know financial analyst, said: "It wasn't raining when Noah built the ark." I hope the information is valuable to you in building financial security. And I hope that we may earn the privilege of having you as a client.

Sincerely,

*Michael E. Girouard*

# INCOME

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***Do you have enough guaranteed income to maintain your lifestyle through your retirement?***

The first step is to list your sources of income and the amount of income. Income is broken into two groups: guaranteed lifetime income and other sources of income. Also it is important to note what one spouse would receive in income, if any, upon the death of the primary spouse. List your sources for income.

Guaranteed lifetime annual income - use the “%” to put the survivor percentage if any:

			Spouse
Social Security income	\$ _____	\$ _____	(    %) )
Pension income	\$ _____ (    %)	\$ _____	(    %) )
Immediate Annuity	\$ _____ (    %)	\$ _____	(    %) income
Other _____	\$ _____ (    %)	\$ _____	(    %) )
<b>Total for each</b>	\$ _____	\$ _____	
<b>Total combined</b>	\$ _____	<b>Total for Survivor</b>	\$ _____

## INCOME

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***Other sources for annual income:***

	<b>Value</b>	<b>Income</b>
Certificates of deposit	\$ _____	\$ _____
Savings accounts	\$ _____	\$ _____
Stocks (gains or dividends)	\$ _____	\$ _____
Bonds (taxable)	\$ _____	\$ _____
Municipal Bonds	\$ _____	\$ _____
Rental real estate	\$ _____	\$ _____
Tax-deferred annuities	\$ _____	\$ _____
Life insurance	\$ _____	\$ _____
IRAs	\$ _____	\$ _____
Other _____	\$ _____	\$ _____
Other _____	\$ _____	\$ _____
<b>Totals</b>	\$ _____	\$ _____

Now we need to find out what your basic expenses are. You can use the chart on the next three pages to assist you in figuring your monthly and annual expense needs. This step is extremely valuable in knowing what you need to maintain your current lifestyle. A good source for some of this information is your check registry. *Note: It may be time consuming to find each expense that you are incurring yearly. But it is one of the most important in figuring if your income is adequate in maintaining your current lifestyle today and in the future. The time spent in finding this information is well worth the knowledge that can be obtained.*

# INCOME

Basic Expenses		
<u>Item</u>	<u>Monthly</u>	<u>Annually</u>
Rent		
Insurance		
Taxes		
Mortgage		
<b>Total Housing</b>		
Household Food		
Dining Out		
<b>Total Food</b>		
Electric		
Water		
Phone		
Cable/Satellite		
Security		
Pest Control		
Other		
<b>Total Utilities</b>		
Auto Payment		
Auto Insurance		
Gas & Oil		
Maintenance		
<b>Total Auto</b>		

## INCOME

<u>Item</u>	<u>Monthly</u>	<u>Annually</u>
Life Insurance Premiums		
Medicare		
Health & LTC Insurance		
Excess Medical Expenses		
Group Insurance		
Burial Program		
Other Insurance Expenses		
<b>Total Ins. &amp; Medical</b>		
Child Support		
Alimony		
Debt Service		
<b>Total Liability Expenses</b>		
Church Contributions		
Charities		
Family Gifts (Birthdays/Christmas)		
Education Funding		
<b>Total Gifts</b>		
Dues		
Travel		
Other		
<b>Total Entertainment</b>		



## INCOME

<u>Item</u>	<u>Monthly</u>	<u>Annually</u>	If
Clothing			
Maid/Gardener			
Beauty Parlor/Barber Shop			
Repairs & Maintenance			
Qualified Plan Contributions			
Professional Fees			
Other Real Estate Taxes			
<b>Total Miscellaneous</b>			
<b>Income Taxes</b>			
<b>Total Expenses</b>			

You have completed the previous two sections, congratulations! You are on your way to knowing where you are in retirement. This information is vital in assisting you in finding out if your income is meeting your life-style needs. *One important point to look at is the guaranteed lifetime income.* Many retirees want their income to be guaranteed for the rest of their retirement. You may want to look at an **Immediate Income Annuity** to help supplement your guaranteed lifetime income. The information from this section will also be used to see if your money is in the right position for your retirement.

## INCOME

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### ***Are you prepared for a possible drop in income when you or your spouse dies?***

It is important to know what happens to our income when you or your spouse dies. For Social Security if both are receiving benefits, the survivor will receive which ever check is higher, not both. This can cut into income deeply for those whos' income is supported heavily by Social Security. Also most pensions have a survivorship option that was chosen at retirement. Many retirees accept a higher payment not realizing what it can do to their spouse. If there is a large drop in income at the first spouses' death, you may want to research into buying life insurance to cover that loss of income. This is called *Pension Maximization*. If it is done early in retirement and your health is favorable, the premiums can be very cost effective. If you have other invested assets to work with, you can plan to create a guaranteed lifetime income for the surviving spouse using some of those assets. A good way to plan for this is using a *Tax-Deferred Annuity*, but the annuity must have the beneficiary set up correctly.

### ***Are your sources of income protected in case you get sued or file for bankruptcy?***

In our modern society, it is extremely likely that you will sue or be sued at some time in your life. Many of us who have saved to have a successful retirement are exposed to this possibility. One of the more common reasons for lawsuits is personal injury from a vehicular accident. With speeds increasing and the roads getting more crowded, it is more likely that someone in an accident will be severely injured or killed. Even if you only have partial fault in that accident, you will be sued. It is important to understand what can and cannot be attached from a judgment. Here is a list of what is currently protected in the

## INCOME

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An *unmarried person* can keep \$30,000 in personal property. A *couple* can keep \$60,000.

The definition of personal property includes the following:

- Home furnishings, including family heirlooms
- Farming or ranching vehicles and implements
- Clothing
- Up to \$15,000 worth in jewelry (for singles it is \$7,500)
- Tools, equipment, books, boats, and motor vehicles used in a trade or profession
- A two-wheeled, three wheeled or four-wheeled motor vehicle for each family member
- Two firearms
- Athletic and sporting equipment
- Household pets
- Two horses, mules or donkeys and saddle, blanket and bridle for each
- 12 head of cattle
- 60 head of other type of livestock
- 120 fowl

Annuities are protected in the state of Texas.

You also have a homestead protection as long as it sits on 10 acres or less in the city. Outside city limits, the maximum is 200 acres for married couples and 100 for unmarried individuals.

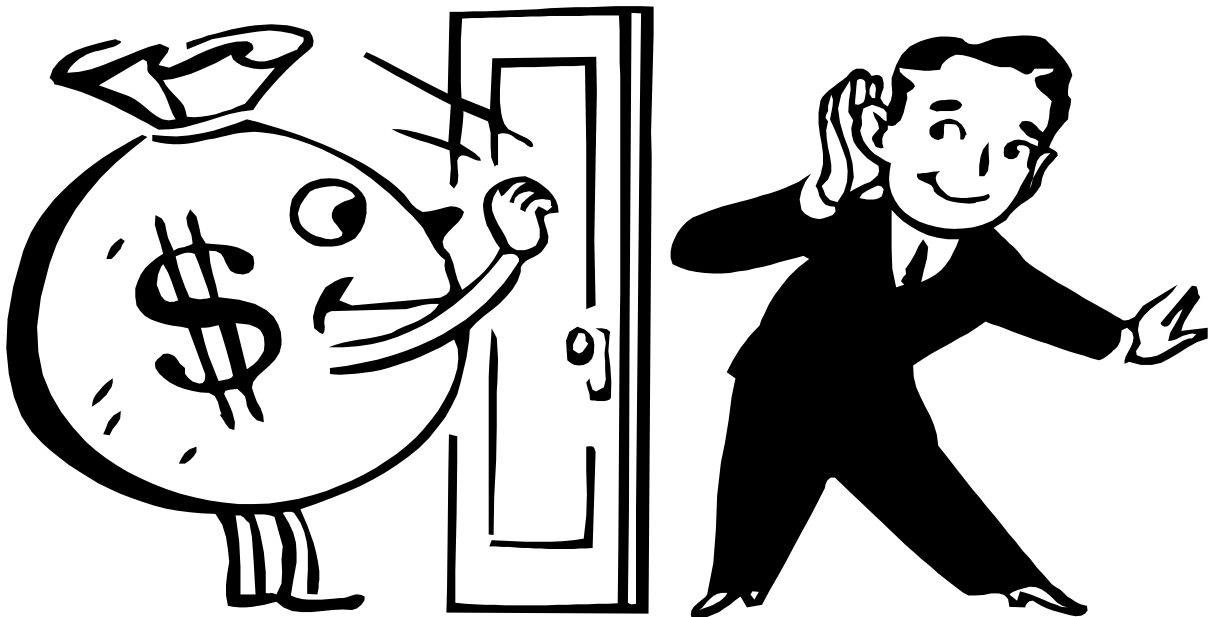
Your retirement accounts are protected also as long as they contain pre-tax contributions like an IRA or 401K. ROTH IRAs are also protected even though they have after-tax contributions.

## INCOME

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Current wages from employment are also protected except in the court ordered payment of child support, alimony or other support/maintenance.

There are ways to safely prepare for a possible lawsuit. One addition to your insurance portfolio may be a personal liability umbrella that can be obtained from the agent who handles your homeowners insurance. This policy extends coverage above your normal coverage and is reasonably priced.



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### ***Have you prepared legal documents for your heirs in case of your death or disability?***

Here are a few of the documents that you may need to use:

*Revocable Living Trust* - A document created by an individual or married couple which holds title to their assets.

In most instances, the three parties to a Revocable Living Trust; the creator or *Grantor(s)*, the person(s) who controls the Trust, the *Trustee(s)* and the person(s) who receives the income or benefit of Trust assets, the *Beneficiary(s)*, are one in the same - you. Though this is not a mandatory structuring, it indeed yields the most desirable and effective results with regard to control while you are healthy and competent and during periods of incapacity and ultimately after death. It addresses well the *pitfalls of joint tenancy* and the negative tax consequences that can ensue.

During periods of incapacity and beyond is when the true benefits of the *Living Trust* are evident. *Avoidance of Probate* is often cited as one of the major reasons for establishing a Revocable Living Trust. For many of us, having lived a full life (with many more years to come) we have become exposed to the rigors of the Probate process ; either in dealing with a loved ones' affairs or having shared with a friend or relative their experiences in the Probate process, one thing rings true - we simply wish we didn't have to be there. The *Living Trust* has withstood the pooh, poohs' of that sector of the legal profession who earn a living in the 14 billion dollar a year Probate system , only to emerge with the endorsement of such notable organizations as AARP and many other credible national sources and practitioners.

*Durable General Power of Attorney* - A document created by an individual, thereby naming a person(s) to act on his or her behalf in the event of incapacity. Though effective as a stand-alone document, it works to it's truest potential when written in conjunction with a well drafted Revocable Living Trust or other estate planning document. This document can be broad in scope and address virtually every need of the affected person with

## NEXT OF KIN

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regard to their day to day business and financial affairs. Well drafted POA's as they may be referred to, can contain additional provisions to limit or extend the powers of the appointee as the creator sees fit. In any case they have proven to be invaluable tools to married couples and individuals when dealing with the issues of what is called "Living Probate". In the absence of a well drafted Trust and Power of Attorney; during a period of incapacity (sometimes physical as well as mental) it is not your loved ones that decide who will handle your affairs and how; but the Probate Court.

Directive to Physicians or "Living Will" - A document created by you that directs your caregivers, in the event of your imminent demise, to withhold certain procedures that would only serve to artificially prolong the moment of your death. Where in the absence of such procedures it is your wish to die naturally and with dignity. This legal document relieves your loved ones of a terribly emotional decision that might very well be in direct contrast to your true wishes. Upon honest reflection most people tend to agree with this premise and if for no other reason, execute this document for the sole purpose of "reserving" the right to die with dignity. For if that is indeed your wish, you must do so in writing with today's highly litigious society.

Health Care Power of Attorney - Similar in scope and in structure to the General Power of Attorney discussed above; it's purpose has a much narrower focus - that being decisions of the affected person with regard to medical practitioners and institutions. Most medical facilities require this document prior to admission but it is obvious that in cases of emergency you lack the capacity to effect or sign this document and thereby subject your loved ones the liability-limiting practices of the providers and thereby possibly costing you valuable lifesaving time or opportunity for care.

All of the above documents are available in one comprehensive

## NEXT OF KIN

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portfolio through this firm and its expert estate planning associates. More importantly, you the client will understand your Trust and related documents thereby helping you to further protect your assets from what can be the estate devouring impact of the Probate process.

### *Have you prepared for possible estate taxes?*

The recent tax law changes from *The Economic Growth and Tax Relief Act of 2001* has begun to reduce the amount of estate taxes and ultimately repeal the estate tax in 2010. Many people took this as a sign that they would not have to plan for any estate taxes any more. The problem is that included in the new act is a “sunset” provision. It states that on January 1, 2011 the act will basically disappear and revert back to the previous laws unless it is voted on and passed again before that date by Congress. This should not keep you from planning. The Revocable Living Trust offers unique estate tax advantages for married couples and should be strongly be considered in virtually all instances but particularly when estate tax liability is present.



## SAFETY

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### ***Do you feel your retirement savings are safe and secure?***

I mention this because most of the people I have worked with list *safety of their money* as a primary consideration. Yet, in so many instances, upon closer inspection of the information provided us through an honest and thorough evaluation in the preceding pages; we see that for a variety of reasons many people have taken on much more risk in their investments than may be deemed appropriate for their individual needs.

This opens the door for the classic debate between brokers and agents as to which investment products are best for their clients, when in reality there is a position which includes both equities and less risky investments in a proper mix for the clients' given *investment age*. This age is not necessarily chronological, but corresponds to one of the *3 stages of a persons' financial life*.

#### Stage 1: **Accumulation**

This stage of a persons financial life generally occurs in a persons 20's, when they have begun long-term career paths, either self-employed or self directed from an investment standpoint or working for an employer with a structured retirement program. In either case given the length of time the individual has to accumulate retirement wealth; investment more heavily allocated to the equities market may yield the individual greater returns, given the time they have to allow their money to accumulate and given the history of capital markets. Perhaps up to 60% of an individuals' portfolio may be made up of equity investments, with the remaining 40% spread evenly over less risky programs. Given the fact the individual does not typically rely on these investments for income, he is virtually unaffected by predictable market fluctuations and can allow his or her



## SAFETY

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investments to accumulate over longer periods of time uninterrupted. This pattern may continue well into a person's 50's as they approach the next stage of their financial life.

### Stage 2: *Preservation*

This is a transitional stage where the individual, contemplating an approaching retirement, begins to restructure their investments *systematically* in favor of more fixed and guaranteed returns. This allows for the gains, enjoyed over the previous years, to be preserved. Though typically growing at rates of return somewhat lower than in previous years, returns are far more consistent and secure thus providing for a more stable and predictable income in retirement. Even in this stage of financial life there still exists the need for equity investment to augment the accumulation process here; however the amounts allocated to these areas are measurably less than in previous years. All of this is done to provide the individual an accurate picture of what he or she can reasonably expect as a safe, fixed and consistent income in retirement.

### Stage 3: *Distribution*

This stage is characterized by the fact that the income needs of the individual are met by either by a systematic liquidation of accumulated retirement funds, the use of part or all of investment gains on the principal, annually, or some combination of the above. In any case, fluctuations in returns here or a drop in principal can have devastating effects on present and future lifestyles of retirees. This is why the concept of *Age Appropriate Allocation* is one of utmost importance. A lifetime guaranteed income can serve as the cornerstone of planning at this stage of a person's financial life; please allow a professional to offer guidance at this stage. We've seen it all at this point. You would do well to learn from those who have accompanied others on this road.

## **SAFETY**

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As retirement approaches there is an increased need for planning in areas other than financial. As discussed previously in this guide and to be discussed later, other areas of planning require fixed and guaranteed returns from the financial area in order to be effective. Planning is seldom effective when it incorporates variables. So a person is typically better served when they can count on fixed and guaranteed results. This also establishes a realistic baseline upon which to base your retirement lifestyle. This area of retirement is one in which we have served our clients well

We have found that there is no substitute for talking about your goals and needs with a qualified professional. Chances are we have seen situations similar to yours many times and can offer real solutions based on proven approaches and measurable results. Feel free to call me with your questions. If I don't know the answer to your question, chances are I know where to get it. In similar fashion I've enjoyed watching my clients enjoy security at all stages of their retirement. It's never too late plan for/in retirement.

The advice is always free, factual, and based on years of experience at doing the very same things for people with similar needs and goals. We would love to see you benefit from the positive experiences of those that have gone before you. Call me to begin a more secure and well planned retirement that has two primary goals...safety & security.



## INFLATION

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What is inflation? Think back to when you purchased your very first home. It could have been 30 years ago or more . How much did you pay for it? Now think about how much you paid for the automobile you are driving today. Did you ever think that you would be driving a car worth the price of your first home? It is very important to understand the impact inflation has on our money. To maintain your current lifestyle through retirement, we must prepare to increase our incomes in the future to maintain purchasing power.

The charts below can be used to assist you in seeing what your future expenses may be based on different inflation rates and time periods. Multiply your yearly expenses (*calculated earlier in the “INCOME” section of this workbook*) with the number in the (    ) and this will tell you how much your yearly expenses *could be* based on different inflation rates and periods.

**Your Yearly Expenses \$ \_\_\_\_\_**

**@ 3% inflation rate:**

In 5 Years (1.159) \$ \_\_\_\_\_      In 10 Years (1.343) \$ \_\_\_\_\_

In 15 Yrs. (1.557) \$ \_\_\_\_\_      In 20 Years (1.806) \$ \_\_\_\_\_

**@ 4% inflation rate:**

In 5 Years (1.216) \$ \_\_\_\_\_      In 10 Years (1.480) \$ \_\_\_\_\_

In 15 Yrs. (1.800) \$ \_\_\_\_\_      In 20 Years (2.191) \$ \_\_\_\_\_

## INFLATION

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### ***Do you understand the effects of inflation on your future financial security?***

A simple example: Take out two dollar bills and set them in front of you. If you are maintaining your current lifestyle with \$25,000 a year, based on a 3% inflation rate you are losing

Approximately two dollars of purchasing power each and every day. That's 3% of \$25,000 equaling \$750. Divide by 365 and you get \$2.05.

### ***Are your retirement savings positioned to provide you enough inflation protection?***

The previous chart can show you how inflation can put you into a financial crunch very quickly. We must understand that we cannot control inflation. We cannot go a day in our life without spending some money. What can be done is to increase the earnings on our retirement savings and to do so while controlling taxes. This can curb the effects that inflation may have on our future purchasing power.



## GROWTH

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### ***Are your retirement assets growing enough for your financial future?***

As we have gathered from the topic of inflation, we need to be maximizing the growth of our assets. Do you know the average return on your invested assets? Let's find out.

List all invested assets and their last twelve months gain:

	<u>Values</u>	<u>Gains</u>
1. Cash and Savings Accounts	\$ _____	\$ _____
2. Certificates of Deposit	\$ _____	\$ _____
3. Bonds (taxable)	\$ _____	\$ _____
4. Municipal Bonds	\$ _____	\$ _____
5. Stocks (capital gains)	\$ _____	\$ _____
6. Dividends	\$ _____	\$ _____
7. IRAs	\$ _____	\$ _____
8. Rental Real Estate	\$ _____	\$ _____
9. Life Insurance Cash Values	\$ _____	\$ _____
10. Tax Deferred Annuities	\$ _____	\$ _____
11. _____	\$ _____	\$ _____
12. _____	\$ _____	\$ _____
13. _____	\$ _____	\$ _____
14. _____	\$ _____	\$ _____
15. _____	\$ _____	\$ _____
<b>TOTALS</b>	\$ _____	\$ _____

## GROWTH

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Take the gains of your assets and divide them by the value of the assets.

$$\begin{array}{rcl} \text{TOTAL Gains} & \underline{\hspace{2cm}} & \\ \text{Divided By} & \div & \\ \text{TOTAL Values} & \underline{\hspace{2cm}} & \\ \text{Equals Average Return} & = & \underline{\hspace{2cm}}\% \end{array}$$

This number varies widely for each of us but we need to make sure our invested assets are working hard enough for our future. And remember, these figures are not yet taking into account income taxes.

### ***Are your assets well diversified?***

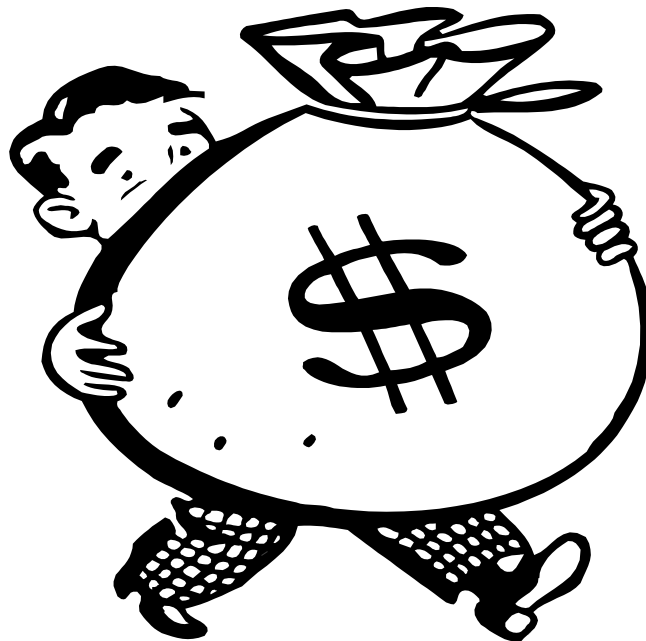
Looking at the *invested assets chart*, do you have only three or fewer entries? If so, you may not be as diversified as you may need to be for your future. Diversification is a strategy of using various investment vehicles or positions to reduce the risk of loss while trying to increase the opportunity for better returns. This *does not* mean that you are well diversified if you have 10 different certificates of deposit in 3 different banks. Nor does it mean that because you owned 20 different “dot.com” stocks that you were well diversified. Diversification means owning different assets that have different levels of risk and reward. Diversification is different for everyone because of the amount of risk you can tolerate for the potential reward. These last few years have taught many of us that we were taking on too much risk. Of course this was realized after the market dropped dramatically. If you look at your assets’ average return and you feel it is too low for your financial future, you may need to diversify

## GROWTH

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some of your assets to other investment vehicles that can give you more opportunity. You may want to consider the *Equity Indexed Annuity* for example. It depends on each situation but it can give you an opportunity to share in the potential gains of a stock market index without risking your principal from potential stock market loss.

Understanding if your assets are positioned correctly and earning enough for your future is a fundamental in planning for/in retirement. You don't want to be too aggressive nor too conservative. You want to establish a portfolio that you are comfortable with that still has the ability to accomplish your goals. Some of you may not know what is or is not right for you. If you would like to discuss what alternatives are available, give me a call and I would be glad to discuss what may fit into your planning.



## HEALTH

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### ***Do You have the right Medicare Supplement Insurance?***

A Medigap policy, or Medicare Supplement Insurance is a health insurance policy designed to fill the “gaps” in Medicare coverage. It is issued by private insurance companies and you pay a premium for the level of benefits you desire. There are 10 standardized Medigap plans called “A” through “J.” Each plan has a different set of benefits with Plan “A” offering the least amount of benefits and Plan “J” offering the most benefits. Of course the more benefits there are the more premiums will be.

It is wise to occasionally review your current Medigap coverage and compare your premiums and benefits with that of other insurance companies. As long as you are in good health, you may be able to reduce your premiums and/or increase benefits. You should also consider the company’s history on raising premiums for current policyholders.

### ***Have you and your spouse prepared for a possible long-term care episode?***

Imagine you are in the middle of retirement enjoying the fruits of your working years, then you or your spouse or both are struck with a devastating illness. The good news is - it didn’t take your life. The bad news is - you are going to need full time assistance. While many of us wish to stay at home if this were to occur, home care can be very expensive when the level of needed assistance begins to increase. The last alternative is a skilled - nursing facility. But the prices can range from \$100 to \$150 or more per day, locally. Not inexpensive. Many people believe that Medicare will do something for their long-term care needs, but this is not the case. Medicare was designed to assist with acute illnesses, not chronic illness and the type of assistance it demands.



## HEALTH

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What about Medicaid? It is designed to assist those who have very little or no financial means to take care of themselves. And you have to go where they can fit you in, so you may not be in the place you wish to be. So you are going to have to pay for it. If you were going to have to pay \$3,000 - plus, per month from your assets, how long would they last? Also, do not forget inflation. It affects the cost of care in the future. So if a month of long-term care costs will be \$3,000 this year, what will it cost if you need assistance in 10 years? Based on a 3% inflation rate, it will cost \$4,029 per month (*remember you can use the sample inflation charts*). Can you afford the costs now? Will you be able to afford it later? We all know someone that has needed this type of care. But we continue to deny that it will happen to us. It is highly recommended that you look into a long-term care insurance policy. Especially if you are single or widowed. With no spouse to help keep you at home, if assistance is needed the skilled-nursing home option is usually the only practical alternative. Let's talk about who should look into long-term care as well as alternatives to paying premiums for the rest of your life. Some of us may already have long-term care protection and don't even know it. Many existing life insurance policies offer such benefits. Referred to as "*accelerated benefits*" these programs allow the use of the death benefit, in it's full value, to be used to pay for nursing homes, home health care, assisted living facilities, etc. You may be able to convert existing paid up policies to include these benefits. Call me to discuss this concept in detail.

First of all any insurance is purchased to reduce the risk of financial loss. So if you do not have a reasonable amount of assets and income that you wish to protect in case of a long-term care event, then purchasing coverage may not be right for you. So you need to have assets and income to protect from loss. You must be in reasonable health to purchase long-term care coverage. So if your health is beginning to fail, you may not be able to purchase long-term care insurance. If you are unsure about your health situation, call me to discuss it.

## TAXES

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### ***Are you paying taxes on money you are not currently spending?***

Many retirees are paying taxes on income they are not spending. Commonly we use certificates of deposit or similar positions to place some of our retirement savings. And for some of us we renew the CD yearly and pay taxes on the interest earned even though we do not need the income. Let's look at an example:

<b>1 year CD interest rate:</b>	<b>1.0%</b>
<b>Less income taxes (27.5% tax bracket)</b>	<b><u>-.55%</u></b>
<b>Equals after income tax return of</b>	<b>.45%</b>

So even though you are not using the income you are giving up some of it's future potential growth due to income taxes. But this is not all. Remember that inflation is also affecting your money. Let's say inflation is running at 3.0%:

<b>After income tax return</b>	<b>.45%</b>
<b>Less assumed inflation</b>	<b><u>- 3.00%</u></b>
<b>Equals after income tax and inflation</b>	<b>&lt;- 2.55%&gt;</b>

Do you feel you are getting ahead or falling behind in this scenario? If you are paying taxes on income you are not spending and are concerned about increasing your future retirement earnings, you should look into deferring these taxes to a later time when you *need* to spend the income. Look at your tax form 1040 line #22. This is your total income.

## TAXES

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If this amount is greater than your yearly expenses you may be able to reduce your current income taxes. One way this can be accomplished is by using tax-deferred vehicles for the retirement savings that you do not need the income from currently.

Another great reason to defer taxes on income we are not spending to a later date is that recent tax law changes are reducing our tax brackets for taxable income in the future. ***The Economic Growth and Tax Relief Reconciliation Act of 2001*** has put into current law a reduction of future tax brackets. Here is a list of the most common tax brackets and their future changes:

<b>Old Law</b>	<b>28.0%</b>	<b>31.0%</b>	<b>36.0%</b>	<b>39.6%</b>
<b>Year 2001</b>	<b>27.5%</b>	<b>30.5%</b>	<b>35.5%</b>	<b>39.1%</b>
<b>Years 2002-2003</b>	<b>27.0%</b>	<b>30.0%</b>	<b>35.0%</b>	<b>38.6%</b>
<b>Years 2004-2005</b>	<b>26.0%</b>	<b>29.0%</b>	<b>34.0%</b>	<b>37.6%</b>
<b>Years 2006-2010</b>	<b>25.0%</b>	<b>28.0%</b>	<b>33.0%</b>	<b>35.0%</b>

If you could decide in what year you would pay taxes on your income, which years would you choose? Of course, 2006 to 2010. So you may be able to defer current taxes on some of your income that you are not currently spending and when you pay taxes later, it may be at a lower tax bracket. Wouldn't it make sense to do that?

### ***Are you paying taxes on your Social Security income?***

This is one topic that makes many of us upset with our government. A good many of the retirees today are paying some income taxes on their Social Security income. Let's look how these

## TAXES

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taxes are figured. First we must calculate our Modified Adjusted Gross Income (MAGI):

<b>Wages, salaries and tips</b>	\$ _____
<b>Taxable interest</b>	\$ _____
<b>Ordinary dividends</b>	\$ _____
<b>Taxable refunds or credits</b>	\$ _____
<b>Alimony received</b>	\$ _____
<b>Business income (or loss)</b>	\$ _____
<b>Capital gain (loss)</b>	\$ _____
<b>Other gains (losses)</b>	\$ _____
<b>IRA distributions</b>	\$ _____
<b>Total pension and annuities</b>	\$ _____
<b>Rental real estate</b>	\$ _____
<b>Farm income (or loss)</b>	\$ _____
<b>Unemployment compensation</b>	\$ _____
<b>Other income</b>	\$ _____
<b>Tax-exempt interest</b>	\$ _____
 <b>TOTAL for MAGI</b>	 \$ _____

Now let's calculate your Provisional Income:

<b>MAGI</b>	\$ _____
<b>Add 1/2 Social Security benefits</b>	\$ _____
<b>TOTAL for Provisional Income</b>	\$ _____

## TAXES

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If your Provisional Income is greater than the Threshold Amounts of \$34,000 if single, or \$44,000 married filing jointly; you may be able to reduce the amount of Social Security benefits that are taxable. If your Provisional Income is greater than the Exclusion Amounts of \$25,000 if single, or \$32,000 married filing jointly and less than the Threshold Amounts above; you may be able to reduce or eliminate the taxes on your Social Security benefits. Look at your sources of income. Are there any that are included in the MAGI from which you are not currently spending the income created? If there is look what could happen by placing the asset into a tax-deferred vehicle. Could repositioning one or more of those accounts reduce or eliminate your taxes on your Social Security benefits? Possibly so. If you think you may be able to reduce these taxes, call me and I would be glad to do an analysis to check and see if you are in a position to control the taxes on your Social Security income. The important note to this is that every dollar you save from the taxes on your Social Security benefits is saved permanently. This is not deferring the taxes; this is reducing or eliminating the taxes.

### ***Why is reducing current income taxes so important?***

We discussed the impact that inflation has over time on our money and how you cannot control inflation. But you could reduce the effects by increasing and/or reducing income taxes. Controlling your taxes can allow you to receive “*Triple Compounding*” on your retirement savings. This means:

**Earning interest on your principal investment.**

**Earning interest on your interest.**

**Earning interest on the taxes you saved.**

I hope you can see the importance of reviewing your overall tax issues to find if there is room for improvement. There is never a charge for a consultation and review of any or all of the topics discussed in this workbook. Please feel free to call me. Help and answers are just a phone call away.

### To the reader ...



After using this workbook, have you found any gaps in your planning that may be improved? Has your current advisor pointed these items out to you without you having to ask? If not I would like to offer my help. I designed this workbook to assist you in seeing where to look for possible problems you may have now or in the future. I hope this workbook has been of value to you in gaining INSIGHT into your financial security and that we can be of service to you in the future.

*Michael E. Girouard*

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*The best is yet to come ...*



*- but you need to see to that now.*

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