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## How To Avoid Emotional Portfolio Withdrawals

**T**he Standard & Poor's 500 stock index is the benchmark against which most investors measure the performance of their portfolios, but that's not such a good thing. For, although the widely-cited index represents the value of America's 500 largest publicly-held companies, it does not represent the performance you should expect from a retirement portfolio.

Prudence demands diversification of a retirement portfolio far beyond 500 blue-chip stocks into multiple asset classes. Surprisingly, so do history, math, and greed.

It turns out that a multi-asset retirement portfolio historically generates returns almost identical to the S&P 500 but without much of the drama.

Since performance data on a broad range of asset classes first

became available 44 years ago, investors in a seven-asset portfolio sidestepped the worst of the terrible dips that befell the S&P 500.

In 2008, for example, when the world financial system teetered on the edge of collapse, the S&P 500 lost as much as 37%. Investors in a multi-asset also suffered frightening losses, but the 28% pullback they suffered was a mere two-thirds of the loss on the S&P 500.

Put another way: The 10.4% annualized return on the S&P 500 versus the 10.3% multi-asset portfolio over 44 years are nearly identical, but investors in the multi-asset portfolio earned their return without experiencing the extreme lows of the S&P 500 -- losses so large they are more likely to compel selling stocks at market-lows and then missing the next bull-run.

## One Conversation Can Make All The Difference

**W**e encourage our clients to prepare and update estate-planning documents such as wills or trusts, medical powers of attorney, general powers of attorney, and living wills. All of you who have done so have done a good and loving thing for your family. It is always wise to put your wishes in writing. However, you also may want to have a conversation with your family about things that are important to you.

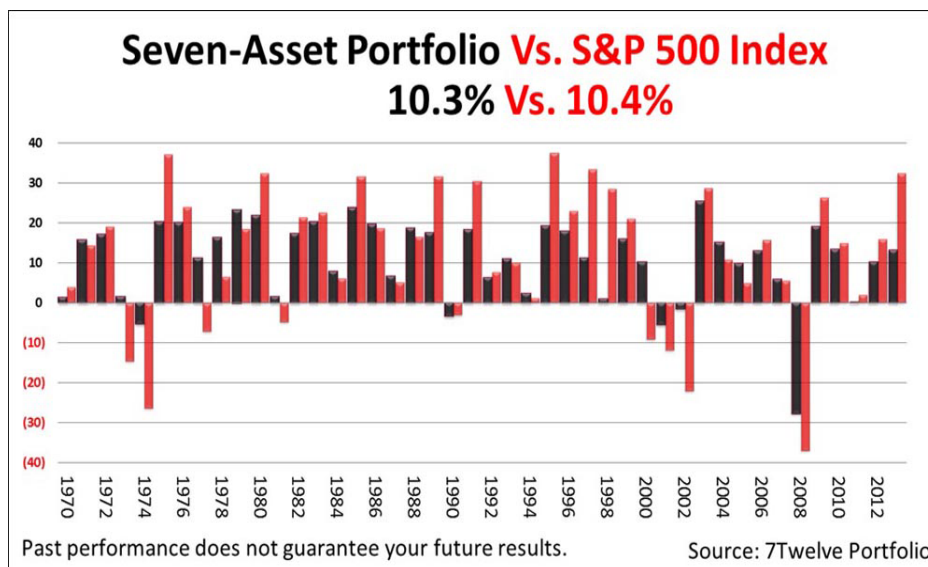
Have you appointed someone to make medical decisions for you? Does that person know what quality of life means to you? I read a story about a man who said that life was worth living if he could watch football and eat chocolate ice cream. When he needed spinal surgery, his son knew his father's wishes.

Boulder County has a chapter of The Conversation Project, a nonprofit organization that helps people talk about their wishes for end-of-life care. Check it out at [www.theconversationprojectinboulder.org](http://www.theconversationprojectinboulder.org).

Colleen has worked in her church to encourage all of us to consider the legacy we leave. Our property, our values, the way we live out our later years, and the way we choose to die is our legacy.

As hard as it is to talk about, the benefits are tremendous.

*Colleen & Pat*



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# When To Start Social Security?

Once you enter your 60s, with thoughts of retirement looming ahead, you face a difficult decision: When should you start to receive Social Security retirement benefits? With some experts arguing that you should begin benefits as soon as possible and others contending that you should wait until full retirement age or longer, the answer to this question is not exactly a no-brainer.

The Social Security Administration (SSA) reminds us that this is a highly personal choice. It depends on numerous factors, including your current need for cash, your health and family history, whether you plan to work in retirement, your other retirement income sources, how much income you expect you will need in the future, and the amount you'll receive from Social Security. There's no definitive right or wrong answer.

The earliest you can start benefits is at age 62, but you'll receive less than you would be entitled to at full retirement age (66 for most Baby Boomers.) However, you'll get even more each

month if you wait longer—until age 70 at the latest. When you start will lock in your benefit amount for the rest of your life, although you'll get cost-of-living increases, and there could be other changes based on work records.

The accompanying chart provides an example of how your monthly amount can differ based on the start date for receiving benefits.

As this chart shows, if you're entitled to \$1,000 in monthly benefits at your full retirement age of 66, if you choose instead to start benefits at age 62, your monthly benefit will be 25% lower, or \$750. Conversely, if you wait until age 70 to begin benefits, the

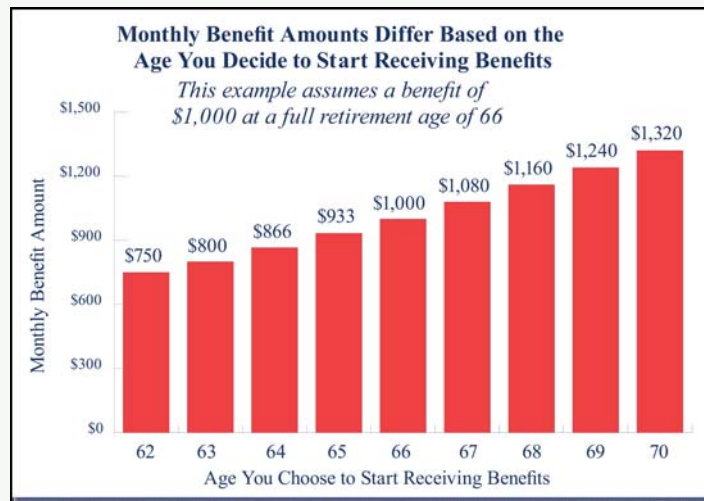
monthly amount jumps to \$1,320, or 32% more than the \$1,000 you would receive at age 66.

Several variables might sway your decision. Waiting longer and receiving more each month could be advisable at a time when life expectancies are increasing and about one in every three 65-year-olds can now expect to live to age 90. Women, who tend to live longer than men, may want to do all they can to maximize their Social Security income. There's also the potential impact of your decision on the rest of the family. If you die before your spouse, he or she may be eligible for payment based on your work

history. That amount could be reduced if you opt for early retiree benefits. Also, if you delay benefits, you may need money from other sources.

Finally, consider that you might decide to work past your full retirement age, perhaps on a part-time basis. That's generally an incentive to postpone payments.

Because this is such an important decision, take the time to weigh all of the variables of your particular situation. We can help you sort through the many possible alternatives. ●



Source: Social Security Administration

# Pay The Toll On Roth Conversion?

Undoubtedly, you've heard about the benefits of moving funds from a traditional IRA into a Roth IRA, a conversion that can save money on future taxes. But there's a "toll" to pay for entering a Roth: The transfer of funds is subject to current income tax, plus it could trigger the 3.8% surtax on net investment income (NII). And that's just the tax cost at the federal level.

Is it worth the price of admission? The only way to answer that is to crunch the numbers for your particular situation, but here are some guidelines to help you understand the basic trade-offs.

Money you take from a traditional IRA, to the extent that it represents tax-deductible contributions to the account and investment earnings that have accumulated there, is taxed at ordinary income rates, currently topping out at 39.6%. And while IRA distributions themselves are exempt from the 3.8% surtax, they still increase your modified adjusted gross income, which is part of the calculation for determining NII. As a result, payouts from a traditional IRA could end up being taxed at a combined 43.4% federal tax rate. Moreover, you have to take annual required minimum distributions (RMDs) from IRAs after age 70½.

In contrast, "qualified" distributions from a Roth IRA—taken after you reach age 59½, or because of death, or disability, or used for up to \$10,000 in first-time homebuyer expenses—that you've had for five years or more are 100% tax-free. Other distributions may be wholly or partially tax-free under ordering rules that treat initial payouts as a return of your nondeductible contributions to the account. And money you keep in a Roth is exempt from RMD rules during your lifetime and won't be taxed if it's withdrawn by your heirs.

One critical factor to consider in weighing whether to do a Roth

# 7 Steps To Take After A Spouse's Sudden Death

The funeral is over, the mourners are gone, and now you're left with the rest of your life after the unexpected death of your beloved spouse. What's a devastated widow or widower to do? For starters, DON'T do anything rash, such as selling the homestead or cashing in all of your stock holdings right away. It may be difficult, especially from an emotional standpoint, but you can pick up the pieces slowly and get your finances in order. Here are seven steps for moving forward:

**1. Meet with your professional advisors.** One of the first steps – if not the absolute first – should be to contact your attorney, accountant, and financial advisor. These professionals can provide guidance for handling all of the legal, tax, and financial matters relating to you and your deceased spouse. Their counsel will be valuable as you work your way through the remaining six steps on this list.

**2. Get the will probated.** Assuming your spouse had a valid will and you're the executor—typically the case with married couples—you must begin to probate the will by filing a petition with the appropriate county office. Depending on the particulars, it can take as little as a few weeks or as long as a few years for the process to be completed. Keep your attorney in the

loop the entire way.

**3. Apply for benefits.** Normally, you'll be entitled to Social Security benefits, including a one-time death benefit, plus Veteran's Administration (VA) benefits if your spouse was a military veteran. A surviving spouse over age 60 at the time of the other spouse's death may claim survivor benefits from Social Security. But don't continue to cash Social Security checks for a deceased spouse; you'll likely have to pay those back. It may be necessary to visit the local Social Security office and to contact the VA when appropriate. Also, don't forget to inquire about benefits from your spouse's employer if your spouse was still working.

**4. Collect life insurance proceeds.** Once reality sets in, you have to go about the regular business of making payments on the mortgage, the car loan, and other debts. Life insurance proceeds could be needed sooner rather than later. Examine your records to determine what you're entitled to receive through any private and employment-based policies. Your insurance agent can help, and your financial advisor can consult with you on how best to deploy any insurance benefit.

**5. Review the books.** Once you've had a chance to catch your breath, make

a comprehensive review of your financial affairs. Go over your checkbooks, files, and online ledgers covering living expenses, loans, and other financial obligations. Separate accounts according to whether they're in your spouse's name, your name, or were held jointly. Then let banks, insurance companies, and other entities know about your spouse's death. And keep copies of these communications and verifications.

**6. Change account titles.** Begin the tedious process of re-titling accounts at banks, brokerage houses, and the like. Generally, you automatically will be granted a change on accounts owned as joint tenants with rights of survivorship (JTWROS), but the financial institution may require documentation. Contact each institution and comply with its procedures. Make sure you have enough death certificates to meet all of the obligations.

**7. Start planning for the long term.** Last, but not least, after you've addressed all of the issues requiring prompt attention, look to the future. It's time to circle back to the advisors who helped you at the outset. Reevaluate your investment portfolio, taking your evolving circumstances into account. Update your estate plan with an emphasis on passing wealth to your heirs, such as children and grandchildren, with minimum tax erosion. An estate tax return generally has to be filed within nine months of death. Finally, make those lifestyle choices – perhaps selling a home, heading off on extended travel, or both – that suit your changing needs.

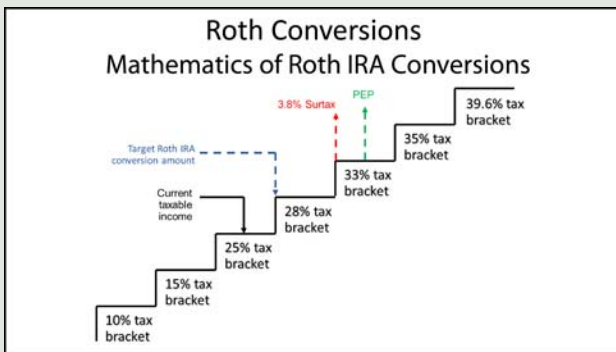
Also make cancellation notices. Your review may reveal gym and club memberships and magazine and journal subscriptions that you can cancel right away. Re-titling your financial accounts will take precedence over this type of bookkeeping, but try not to let this linger, either. Usually, a phone call or a quick note will be enough to take care of things. ●

conversion is your current tax rate compared with what you may pay in the future. For instance, if you anticipate being in a much higher tax bracket during retirement, it could make sense to pay the conversion tax now to avoid higher future taxes on

distributions from a traditional IRA.

For many people, the “sweet spot” for a Roth conversion is the upper ranges of the 25% tax bracket (see chart). You could transfer just enough to avoid being bumped into paying the 28% rate, and you'll likely avoid the 3.8% NII surtax, too. You might use that technique each year for a gradual Roth conversion that doesn't inflate your tax bill to a painful degree.

Just keep in mind that the conversion math will be different for everyone. We can help you decide the best way to proceed in your situation. ●





# What Are Latest Trends In Prenups?

Not so long ago, prenuptial agreements were only for the very rich. But more recently, they've become much more common, especially for spouses in same-sex marriages.

A prenuptial agreement—sometimes also known as an antenuptial or premarital agreement—is a contract that a couple signs prior to marriage. Details may vary, but a “prenup” generally addresses division of assets, including those that each spouse brings into the marriage and those that are earned during the union, as well as spousal support, if the parties dissolve the marriage. But other issues also may be touched upon—for example, that a spouse will have to forfeit assets because of adultery, or provisions relating to children from the union.

Even today, prenups often are viewed warily, because they anticipate a breakup of a marriage before the parties even say, “I do.” But financial realities can supersede such concerns. It may not be romantic to mention it, yet it remains true that more than half of U.S. marriages end in divorce. Some

proponents of prenups argue that such arrangements actually can reduce stress in a marriage, because both spouses know exactly what to expect if they do call it quits.

Much like a will, a prenup ensures that assets will be distributed in an agreed-upon manner. So it's important for both spouses to be up-front about their net worth. As part of the process, prospective spouses need to list all of their ownership interests and decide on an equitable distribution that suits their particular situation. Frequently, there's some give and take before the parties sign off, especially if one spouse has accumulated significantly more wealth than the other.

Note also that state law may have a major impact on such negotiations. “Community property” states may pose particular hurdles.

It used to be that prenuptial agreements applied only to marriage

between a man and a woman. However, in the wake of the U.S. Supreme Court case invalidating part of the Defense of Marriage Act (DOMA), prenups for same-sex couples are on the rise. These couples, too, can use a prenup to resolve issues relating to assets accumulated prior to the marriage and during the union.



Another reason for same-sex couples to consider a prenup is the possibility that a marriage might end with one or both partners residing in a state that doesn't recognize same-sex marriages. The prenuptial agreement can provide adjustments based on this scenario.

Of course, having conversations before a marriage about which partner gets what if the union ends are bound to be awkward for both traditional and same-sex couples. But getting such things settled now may be worth the trouble if it helps avoid acrimony later. ●

## Avoid Emotional Withdrawals

(Continued from page 1)

The "math of losses" makes it hard for a portfolio diminished by losses to become whole again. Losing 20.0% of a portfolio requires a 25.0% gain to break even. And the math becomes more tyrannical with larger losses.

Recovering from the 37% loss in the S&P 500 investors sustained at the market bottom in 2008 required a 58.7% gain. To recuperate from its 28% decline sustained by investors in the multi-asset portfolio required a 37% gain.

It pushes investors into scarier situations and makes it more difficult to have faith that nothing

-- no natural disaster or political, financial, religious crisis or war --

will bring down the world and bring an end to the progress of humanity. ●

## The Math Of Losses In 2008<sup>¥</sup>

% Portfolio Loss	Portfolios	% Gain Needed To Break Even
-5%		5.3%
-10%		11.1%
-15%		17.6%
-20%		25.0%
-27%	Multi-Asset Portfolio	37.0%
-30%		42.9%
-35%		53.8%
-37%	S&P 500 Index	58.7%
-40%		66.7%
-45%		81.8%
-50%		100.0%
-55%		122.2%
-60%		150.0%
-65%		185.7%
-70%		233.3%
-75%		300.0%

<sup>¥</sup>Required % Gain =  $[1 / (1 - \% \text{ Loss})] - 1$

Past performance does not guarantee your future results.

Source: 7Twelve Portfolio