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10 Steps To Take On The Path To Early Retirement

The new American dream is to retire early, perhaps in your 50s or even your 40s. But how do you make this dream a reality? These steps could help:

1. **Map out a plan.** Retiring early requires starting early with very deliberate planning. Design a road map of how you will get there, including an analysis of your investments and how much income you anticipate getting from other sources, such as Social Security (which won't kick in until your 60s at the earliest), and spell out the details in writing. To accumulate enough to retire early, you'll likely need to take a fairly aggressive approach to investing while working full time. You'll also need continued growth during a phase-down period and a plan for how you'll manage assets when you're completely retired.

2. **Get going now.** Immediate action also is called for if you're going to meet this ambitious goal. Put your plan into motion today instead of waiting for a tomorrow that might never come.

3. **Control your debt.** One of the biggest impediments to early retirement is spending too much while you're working, especially if you build up substantial debt. The more you borrow, the harder it will be save enough to call it quits. Not only do debt payments siphon away money that you could use

more productively, you're also paying extra in interest charges. You're bound to have a mortgage and perhaps a car payment, but if you eliminate luxury purchases now you'll be more likely to have the money later to support yourself without working.

4. **Educate yourself.** Knowledge is power, and learning about investing and other financial matters can help you

make good choices on the way to early retirement. Understanding the more complex assets you may hold—bonds, exchange-traded funds, annuities, etc.—should enable you to avoid mistakes that could

disrupt your progress. Take the time to learn everything you need to know.

5. **Make the process automatic.** Human nature being what it is, it may be difficult for you to remain diligent about saving more and spending less. But you could do yourself a favor by automating some things that can help steer you toward early retirement. Increasing your 401(k) plan contributions—perhaps by directing part of a salary increase into your account—can make a big difference. You also might take a systematic approach to prepaying mortgages or car loans.

6. **Don't ignore taxes.** It's not only how much you earn that makes a difference; it also matters how much



Tax Planning In Early Retirement

Financial planning is important at any age but the pre-retirement and early retirement years can be critical. Some decisions made during this time are irrevocable – what to do with retirement plan assets and pensions, when to start Social Security benefits, and how to reduce taxes during retirement.

When you quit working, income taxes can vary from year to year because:

- The portion of Social Security benefits subject to income tax depends on the level of other income.
- You may have capital gains from the sale of investments, real estate, or a business.
- At age 70½ required distributions from retirement accounts add to taxable income.

For example, if you retire in your 60s and delay taking Social Security until age 70, there may be some years in which your taxable income is quite low. You can take advantage of these years to realize capital gains or convert traditional IRA assets to a Roth IRA. The capital gain tax rate for the 15% tax bracket is zero – a great opportunity to realize gains and pay no taxes. The Roth conversion can lower your taxes for the rest of your life by reducing required distributions from your IRA.

We can help you take advantage of the opportunities in each year. Give us a call if you would like to know more.

Collins & Roberts

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4 Estate Issues For Business Owners

Estate planning is essential for almost everyone, but it's especially important if you own a business. Your company may account for the majority of what you leave to your heirs. And while you may be years away from retirement, it's far better to get started sooner rather than later. Consider these factors that you may need to address in your estate plan:

1. Succession plan. This can have a ripple effect on other aspects of your estate planning. Do you plan to sell the business to an outsider, or perhaps to hand the reins to a member of your family? If you're grooming a family member for the top spot, it's a good idea to make that clear to everyone involved. Similarly, if power within the company is to be shared among several family members, spell out how that will work. Establish how much control you may want to keep, and make sure you document the arrangement so there won't be misunderstandings.

2. Buy-sell agreement. A buy-sell agreement may work hand in hand with a succession plan. A buy-sell agreement is a contract between a company's co-owners or shareholders

specifying what will happen if a principal dies or is disabled. The main benefit is that such an agreement establishes a value for the business, which may be helpful for various purposes—for example, if someone wants to buy or sell shares from or to another co-owner.



3. Estate taxes. The specter of potential tax consequences often lurks in the background for small businesses. Even with the generous federal estate tax exemption (\$5.43 million in 2015), your heirs may face tax complications, especially on the state level. Because most businesses have a minimum of cash on hand to pay estate taxes, the company might

have to be sold to satisfy federal or state obligations. Estate tax returns are generally due within nine months of death, so make provisions now to avoid a distress sale in the future. And find out what tax breaks could benefit the estate—for instance, a federal tax law provision that allows deferral of estate tax payments when a business interest comprises at least 35% of a taxable estate.

4. Life insurance. One way to avoid a forced sale of a business is to secure adequate life insurance protection for the owner or co-owners. Proceeds from a life insurance policy can be used to pay estate taxes, debts, or other business obligations when an owner dies. Life insurance also may be an essential part of a buy-sell agreement. Depending on your needs, you might choose a form of whole life insurance, term insurance, or another variation.

To avoid problems down the line, consider all of the estate planning implications of owning your business. We will be glad to assist you with the specifics based on your personal circumstances. ●

How A Financial Advisor Can Help

What are your hopes and dreams for the future? They probably begin with being able to provide for yourself and your family. But you also might aspire to a bigger home, an exotic vacation or another luxury, savings for your children's education, and a nest egg for retirement.

While you may be able to achieve all of those things, you can't just snap your fingers and make them happen. You'll need hard work and financial discipline, and you'll need to make a long-term commitment to work toward your goals. Enlisting the services of a financial advisor could help guide you

along the way.

Of course, you still would be the one calling the shots, but an advisor can provide valuable assistance in many respects. An advisor can help you:

- Assess your current financial status, including your income, investments, assets, liabilities, insurance coverage, tax situation, and estate plan;
- Set goals that are both ambitious and reasonable;
- Account for changes in your personal circumstances (births, deaths, marriage, or divorce);
- Address weaknesses in your

current investment and retirement planning;

- Develop a comprehensive plan to suit your current needs and future desires.

Couldn't you do all of this on your own? If you're sufficiently savvy about financial matters you could, but few people have the time, expertise, and inclination to do all that's required. And even if you're determined to tackle your financial objectives by yourself, you could need a push to get you started. What's more, an objective third party such as a professional financial advisor may add a valuable new perspective to your own outlook.

Tax-Optimizing A Retirement Portfolio

Locating investments in the right type of account can make a big difference in your retirement savings and lifestyle.

Here's the story, told through an example of a hypothetical couple — Jodi and Mark — with \$1 million in savings. Their tax-advantaged IRA accounts hold \$360,000 in stocks and stock mutual funds, plus another \$240,000 in taxable bonds. Jodi and Mark's taxable account holds \$400,000, with 60% in stocks returning 10% annually in capital gains and 40% in muni bonds yielding 3.6% of income.

To keep it real, let's make these very reasonable assumptions:

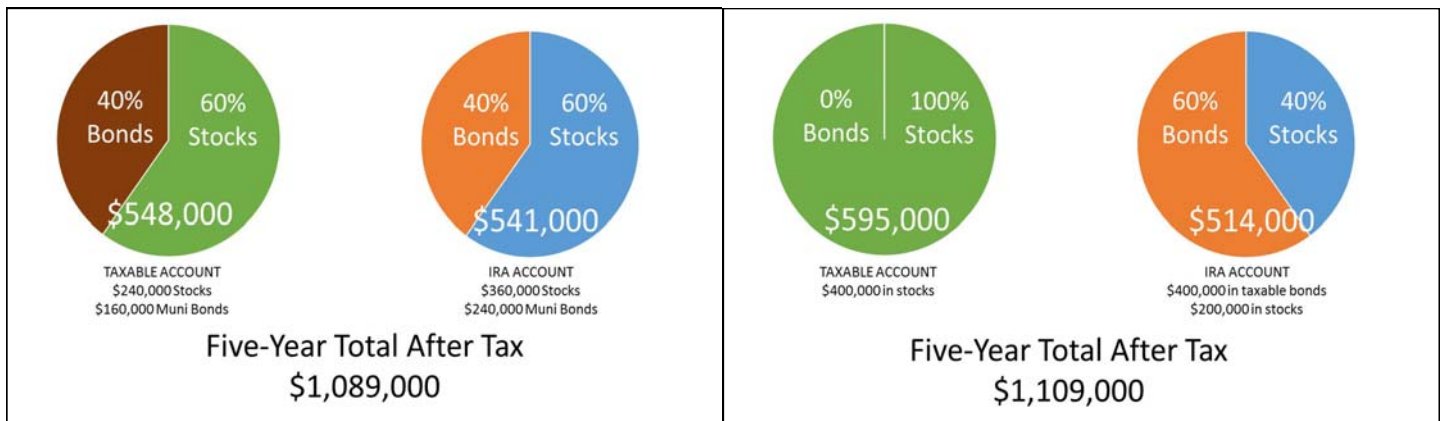
- bonds yield 6% of income annually
- stocks return a 10% capital gain annually
- residents of a state with high-income tax
- combined state and federal tax rate of 40% on income
- capital gains rate of 20%

After five years, the after-tax value of the taxable account is \$548,000 and the IRA's after-tax value grows to \$541,000 — a total of \$1,089,000.

But now look at what happens when you apply a little strategic tax planning by employing a strategy to optimize the location of your investments to minimize taxes.

Optimizing for location would place all \$400,000 in the taxable account in stocks to benefit as much as possible from the 20% favorable capital gains rate. Why settle for income from the muni bonds of 3.6%, when the after tax-return on stocks annually over the long run has averaged 8%? Meanwhile, optimizing the \$600,000 IRAs would mean holding \$400,000 in bonds and \$200,000 in stocks. Instead of a 60% stock and 40% bond allocation, the IRA would hold the reverse — 40% in stocks and 60% in bonds.

The bottom line: \$1,109,000 expected value on the total portfolio after five years versus



You might benefit from having someone review key decisions about your financial future.

Even if you don't feel you need the help of a financial planner now, something could happen to trigger a call for help. For instance, maybe you've inherited a large sum of money or property and you're not sure how to handle it. Perhaps you, or your spouse, have been laid off from a job and suddenly money is tight and you're forced to make financial trade-



offs. Or you may require assistance on other financial fronts ranging from elder-care planning to paying higher-than-expected college costs for your kids or resolving a shortfall in your retirement savings.

If you do decide to use a professional financial advisor, you'll still need to find one who is experienced and has

experience helping clients in your situation. We would be glad to show you the high level of services that we provide. ●

\$1,089,000. Getting an extra 2% — \$20,000 — over five years on a \$1-million portfolio may seem insignificant, but it compounds without being taxed every year in the IRA. After 10 or 20 years, tax-advantaged compounding becomes so powerful it prompted Albert Einstein to say, "Compound interest is the eighth wonder of the world."

Because of the long-term nature of this strategy, getting started on the right course soon is wise. If you have questions about tax optimization, please contact us. ●

8 Smart Moves For College Grads

Have you or one of your kids recently graduated from college? There's a lot to look forward to—a first job, maybe marriage and family and financial success. But college graduates can't assume that good things will happen automatically. Here are eight moves to make as soon as the ink on the diploma dries:

1. Get organized. Put your house in order by collecting vital papers such as your Social Security card, passport, and any investment documents and insurance policies. For optimal protection, store papers you don't need regularly in a bank safe deposit box or another secure location.

2. Start paying down debt. If you've borrowed money while earning your degree, chip away at your liability. The top priority is to wipe out credit card debt, on which you're likely paying a sky-high interest rate. What about student loans? Often those interest rates are low and much of your repayment will make a dent in the principal.

3. Devise a monthly budget. Once you have a firm grasp on both your monthly income and expenses—rent,

car payments, and the like—create a budget. The goal is to be in the black, spending less than you earn, with some savings to spare, but allocate funds for entertainment, too.

4. Open bank accounts. If you don't already have them, set up checking and savings accounts at a local bank. But don't overdo things with your new debit card. And be careful with credit cards—using them can help establish your credit history but try to pay off your borrowing quickly to avoid high interest charges.

5. Look to invest. Now that you have an income, think about how to use some of it to earn more money. For starters, open a brokerage account with a reputable firm. At this early stage in your life, you generally can afford to be relatively aggressive with your investment choices, because you'll have time to overcome temporary losses. But keep in mind your personal tolerance for investment risk.



6. Create a “rainy day” fund. It's impossible to anticipate all of the expenses you'll incur during the next few years. Try to set aside something extra in case of emergencies. For instance, you might face a layoff or an unexpected medical or dental bill.

Have enough savings on hand to carry you through for a few months.

7. Think about retirement. That's not a misprint. Although you're still decades from calling it quits, the sooner you start saving for retirement, the better. Take advantage of company plans such as a 401(k) (especially if your company matches contributions) and

consider supplementing your savings with an IRA.

8. Obtain financial guidance. Fortunately, you don't have to do it all on your own. We can provide assistance based on your personal circumstances. Don't hesitate to contact our office for more details. ●

The Path To Early Retirement

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you keep after taxes, and it's smart to make taxes a prime consideration in most of your investment and financial dealings. Tax-deferred growth inside a 401(k) and IRAs or investing in tax-free municipal bonds in taxable accounts could have a big impact, especially if you're in a high tax bracket. Savvy tax bracket management over time can save you tens or even hundreds of thousands of dollars.

7. Go “all in.” Retiring early almost certainly will require an all-out effort over many years. It may help to work toward this goal as if you were running a business by keeping a steady eye on building toward the future. Try not to be unrealistic about the returns

you expect to get from your investments and retirement plans, and follow through on the saving and spending objectives you've outlined in your early-retirement plan.

8. Assume full responsibility. Assuming you don't hit the jackpot in a lottery or receive a big, unexpected inheritance, you can succeed financially only if you take charge of all aspects of your life. That means correcting mistakes, making necessary adjustments, and striving for sound financial decisions. Part of taking responsibility can involve getting guidance from a knowledgeable professional advisor.

9. Manage your risk. Avoiding substantial investment losses can be just as important as generating big gains. That's why it makes sense to

emphasize risk reduction as you formulate your investment strategy. Keep in mind that financial markets go up and down. And while that doesn't mean you should sink all of your money into U.S. Treasury bills and other traditionally safe investments, you probably will need to include such holdings in your overall portfolio mix to minimize the inherent volatility that can work against your goal of retiring early.

10. Use common sense. Finally, be as logical and rational as you can be in pursuing your goal. In particular, try to avoid panicking during inevitable market downturns. If you save diligently and stay the course with a well-diversified portfolio, early retirement might not be a pipe dream. It could happen to you! ●