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5 Withdrawal Strategies For Retirement Savings

For most people, it's not enough to scrimp and save for the golden years. Once you've entered retirement, you have to figure out how to crack open your savings nest egg. The manner and order in which you withdraw funds from various accounts can make a big difference in your retirement lifestyle.

Let's assume you've covered all the bases. During your work career, you participated in a 401(k) plan or another employer-based plan, enabling you to accumulate funds on a tax-deferred basis. In addition, you established one or more IRAs, and perhaps even a Roth IRA and annuities, to provide more retirement savings. And you've invested in stocks, mutual funds and bonds in brokerage and other taxable accounts. Having done all of that, you have several options for where to get the income you need in retirement.

The conventional wisdom is pretty simple. Start by withdrawing funds from your taxable accounts, and then later tap your tax-sheltered savings. The reason is that this will let you continue to benefit from tax deferral for a longer period and thereby preserve more of

your nest egg.

But that oversimplified approach fails to take into account all of the relevant factors—including rates of return, projected inflation, your tax brackets both prior to retirement and when you're retired as well as your personal objectives. These five strategies could help you fine-tune your game plan:

1. Fill up the two lowest tax brackets. Under the current federal income tax rate structure, the two lowest brackets for ordinary income have tax rates of 10% and 15%, while the top rate is now 39.6%. A common goal is to generate income in retirement that will be taxed at the 10% or 15% rate, but no higher. (The next tax bracket is 25%.) Thus, you might figure on taking short-term gains on stocks or mutual funds in taxable accounts that would be taxed as ordinary income or generating other taxable income only up to the top threshold for the 15% rate. For 2014, the upper limit is \$36,900 for single filers and \$73,800 for joint filers.

2. Consider a Roth IRA conversion. When you make withdrawals from a traditional IRA in retirement, the distributions are taxed on a pro-rata basis. Only the portion representing deductible contributions and earnings is taxed at ordinary income rates. But for qualifying distributions from a Roth in existence at least five years and made after age 59½, the payouts are 100% tax-free.

Knopinski & Fauver Welcomes Advisor Krista Depner

Knopinski & Fauver has seen substantial growth in the eight years since the firm's inception. Colleen and Rob pride themselves on having an efficient practice, but we have little capacity to grow while still offering our clients the level of service they have come to expect.

As a result, we are very pleased to announce that we have added another financial planner to our team. Krista Depner comes to us with over six years of experience working with clients and, just as important, she shares our core values – integrity, honesty, maintaining a high level of competence, and a commitment to working as part of a team to help our clients reach their financial goals.

Krista started working with us at the beginning of March and has brought fresh energy to our practice. We are enjoying integrating her into our team and she is looking forward to meeting all of our clients. She is finding out what Colleen and Rob already know: we have a great group of clients and an excellent values-based practice.

We spent a lot of time finding the right advisor to add – someone with an appropriate skill set and, most importantly, someone who will be a good resource for our clients.

As always, let us know if we can help you in any way.

Colleen & Rob



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Markets May Not Be Certain, But Experience Is

Have you ever wished you could do it all over again? Experience can be a great teacher, and it's natural to imagine that with the benefit of hindsight you would have made better decisions about everything from raising your children to managing your financial affairs. And while that may or may not be true, what is certain is that you can offer younger family members some of the insight you've acquired along the way.

Here are some thoughts you might pass along:

1. When you get a pay raise or a new higher-paying job, consider earmarking at least part of the additional money for retirement savings. You'll be amazed by what tax-deferred compounding can do to even relatively small sums over the course of several decades. And using raises to increase your contribution to a 401(k) can be relatively painless. Ratchet up your saving rate by a percentage point or two each year and you'll soon reach the maximum for annual pre-tax contributions to 401(k)s and similar employer-sponsored plans—\$17,500 in 2014 if you're younger than age 50.

Beginning at 50, you'll be eligible to contribute an extra \$5,500 a year.



2. Try to resist the siren song of early retirement. Leaving your job in your 50s may be tempting, but it runs counter to several financial realities. Most people have not saved enough to retire comfortably even at the traditional age of 65, and quitting early can mortgage your future in two ways—reducing the amount you can save while extending the time that your savings must support you. By the same token, however, every year you keep working improves your situation. Moreover, as life expectancies

increase, more and more people find they want to stay on the job at least part-time, and not only for financial reasons. Working can help keep you engaged and healthy, particularly if you find something you really like to do.

3. Consider postponing Social Security. You can begin receiving benefits as early as age 62, but each year you delay will increase the amount of your monthly payment, and if you wait until age 70, you'll get 76% more than if you had started drawing benefits at 62. And most people will live long enough to get a larger total

payout if they begin later.

4. Don't feel like you have to go it alone in making financial decisions. Working with an advisor could help you make sense of complex financial markets and chart a comfortable path toward your goals. The right advisor can assist you in deciding how much to save, how to allocate your investments, how to weigh the pros and cons of buying a home and other major financial choices, and, when the time comes, how to deploy your retirement nest egg. ●

6 Bad Money Habits For You To Avoid

Take the time to give an honest answer to this question: "Are you mismanaging your money?"

Though your first reaction may be to say "no," upon more reflection you might have to reply "yes," especially if your spending continues to outpace your earnings.

To avoid making the same mistakes over and over, try to identify your bad money habits and eliminate or at least curtail them. Consider these six common problems:

1. You let emotions rule. Do you shop to relieve stress, escape boredom, or entertain yourself? Do you experience anxiety, guilt, or remorse

after shopping? You could be an emotional shopper, genetically programmed to spend excessively. The trick is to keep emotions from getting in the way so that you buy only what you need. One option is to give yourself a cooling off period of a couple of days before making a major purchase to determine whether it's really worthwhile.

2. You feel entitled. Maybe you feel you deserve more than you have regardless of how much you earn or what you own. Why should you be deprived of a top-of-the-line car or your dream house? But smart money-managers train themselves to shy away

from such notions and buy only what they can afford.

3. You crave instant gratification. If you need to get things right away—the latest electronic gadget or designer clothes—you may pay a premium, plus interest on any amount you need to borrow. That's a sure-fire way to sink deeper into debt. If you resolve to pay cash for all your purchases you may be able to hold back and consider the big picture.

4. Your self-worth is defined by possessions. Advertising pitches are designed to make you believe you'll be happier if you buy particular products. But you're much more than what you

5 Steps To Protect The Digital Assets You Own

We're living in a digital world. Nowadays, those important papers that you used to stash in a file cabinet or a safe deposit box often are created and stored electronically. That can remove some of the clutter of having lots of paper around, and it also may be good for the environment. Plus, it gives you easier access to information you need. But advanced technology also may result in problems you may not have considered.

Your heirs could face particularly thorny issues. What will happen to all of your electronic documents and files when you die? Who will have access to them? How will family members be able to find your user names and passwords? What about your photos and music? Will your social media accounts live on forever or will someone take them down? What about bills and insurance premiums you've been paying online? How about information that you want to remain confidential? Those and many other similar questions need to be addressed.

There also could be problems in other situations. Suppose you're severely incapacitated and your oldest child starts to handle your financial affairs online. As far as the financial institutions are concerned, you're still the person logging onto the account and making the transactions. Is it legal for

your child to step in if a financial institution doesn't have a durable power of attorney on file? Are there any other restrictions?

State laws are continuing to evolve in this area, so there are no definitive answers, and you could be subject to rules that you agreed to when you signed up for various internet accounts—even if you paid scant attention to the fine print.

Nevertheless, it makes sense to do what you can to safeguard your digital assets while you're in good health. Putting aside the legal technicalities for the moment, here are five steps that could provide some measure of protection:

1. Make a list of passwords and accounts. The first thing to do is to make sure your loved ones have access to your user names and passwords, or that they know where to find that information if it's needed. And try to remember to update your list when you are prompted to change a password for security purposes. It won't do much good to give someone a list of expired passwords.

2. Use a password manager. Along the same lines, it can be difficult

managing all of your electronic accounts, even under the best circumstances. A simple solution is to use an online password manager service. Once you enroll with the service, a single password grants access to all of your accounts.

3. Provide authority under your will and durable power of attorney. Don't forget to coordinate the management of your digital assets with your overall estate plan. This may require some

additions or modifications to your existing will and durable power of attorney. If you don't have a power of attorney in place, now is a good time to create this document. It enables a designated party to act on your behalf in a multitude of situations.

4. Review vendor contracts. Check the terms of agreements you've signed with social media sites and other online entities. In some cases, matters will be taken out of your own hands. If you're not satisfied with the terms, you might opt to close the account or shift to a different provider. At the very least, develop a good understanding about how things will work in the event of your incapacitation or death.

5. Consider storage with an online company. Undoubtedly, your electronic files contain sensitive information you need to protect, such as your Social Security number and account numbers for securities and IRAs. If that information falls into the wrong hands, it could lead to a financial and logistical nightmare. That could be avoided if you use an online storage company to secure your data.

Technology can simplify our lives, but it also may result in unexpected complications. That's why it's important to do whatever is necessary to give family members the access they will need to handle your financial matters. ●



own, and if you can remind yourself of that, you may be able to look at prospective purchases in terms of whether they answer actual needs.

5. You've become complacent. Many people have the tendency to accept the status quo, even if that means continuing to pile up debts. Complacency is a dangerous emotional state because it lets you disassociate the pleasure you get from buying from the pain you'll feel when the credit card bill arrives. Realizing that you need to change is the first step toward making it happen.

6. You don't have a plan. Those

with bad money habits tend to look at what they earn, spend, and save as separate things rather than acknowledging that they're all tied together. Creating a budget and a retirement savings plan, and sticking to it, are essential. Otherwise, mounting debt becomes a self-fulfilling prophecy.



One way to teach yourself better money habits is to try to run your personal affairs like a business. Set aside reserves for emergencies and allot funds for retirement saving on a monthly basis. Make a few important changes and you'll see the difference very soon. ●

Count On The Portability Provision

Though it's still true that you can't take it with you, a recent tax law change makes it easier to reduce or eliminate estate tax liability for your heirs. Thanks to a "portability" provision that's now part of the law, any unused portion of the individual exemption from federal estate tax that isn't used by the estate of the first spouse to die may be claimed by the surviving spouse's estate.

This special estate tax break, first enacted in 2010, was set to expire after 2012. However, the American Taxpayer Relief Act (ATRA) extended it for 2013 and thereafter. Barring drastic change, you can count on portability for the foreseeable future.

Under ATRA, the federal estate tax exemption is locked in at a generous \$5 million that is increased annually to account for inflation. (The exemption for 2014 is \$5.34 million.) As a result, a couple in 2014 can transfer up to \$10.68 million without incurring a dime of federal estate tax.

Suppose a husband owns \$4 million on his own, his wife has \$3.5 million, and they hold \$2.5 million in both their names—

jointly with rights of survivorship, in legal jargon. Each spouse's will leaves his or her entire estate to the other spouse and, upon the death of that spouse, to the couple's children.

Now suppose that the husband dies first in 2014. Because all of his individually owned assets pass to his wife, his estate needn't use any part of his federal estate tax exemption. (Spouses

normally can inherit an unlimited amount from each other without estate taxes.) So the wife now owns all of the couple's assets, worth a total of \$10 million. When she dies, that \$10 million in assets goes to the couple's children. Without portability, the wife would have only her own exemption, and that would leave her estate responsible for estate taxes on \$4.66 million (the \$10 million in assets minus her \$5.34 million exemption). At the current 40% estate tax rate, the

estate would owe more than \$1.8 million—money that wouldn't go to the children. With portability, however, the combined exemption of \$10.68 million more than covers the \$10 million in the estate, and the heirs pay no estate tax.

As beneficial as the portability provision can be, it won't necessarily solve every potential estate-planning problem. For

example, it still might be a good idea to establish a bypass trust, a tool that, before portability, could be used to maximize the estate tax exemptions of married couples. Although no longer needed for that purpose, a bypass trust still could be used to protect assets from creditors, guard against other tax consequences, such as the generation-skipping tax, and be especially helpful in allocating assets when one or more spouse has children from a previous marriage. ●



Strategies For Retirement

(Continued from page 1)

Accordingly, you might convert traditional IRA funds to a Roth, keeping in mind that the amounts you convert will be treated as taxable distributions. Building on the prior strategy, stagger conversions over a few years to maximize your use of the two lowest tax brackets.

3. Spend from taxable accounts first. Suppose you've taken all of the income you can that's taxed at 10% or 15% but you still need more funds. What's next? All things being equal, taking money from your taxable brokerage accounts may be preferable to raiding a 401(k) plan or IRA. You may generate mostly long-term capital gains, and they're taxed at lower rates

than ordinary income.

4. Keep your bond holdings in IRAs. Although income from bonds is taxed at ordinary income rates, stock sales may qualify for preferential capital gain treatment. Currently, the maximum tax rate on gains from stock owned more than one year is 15%, and 20% for investors in the top 39.6% tax bracket. But you lose the benefit of these favorable tax rates for stocks held inside an IRA, because when you withdraw from an IRA much of the distribution may be taxed as ordinary income. As a result, it's generally better to keep bonds inside an IRA, to defer taxes on interest payments, and stocks on the outside.

5. Don't forget about life insurance. So far, at least, Congress hasn't reduced the tax benefits of life

insurance. The death proceeds are free of federal income tax and you can easily arrange to avoid dire estate tax consequences. Thus, you can consider life insurance to be a supplement to 401(k) and IRA funds on the "back end" of retirement, particularly as a source of income for a surviving spouse.

Note that other factors may come into play that could affect how, when, and where you go for retirement income. For instance, upper-income individuals also may have to account for a 3.8% Medicare surtax on "net investment income" received during retirement. The best idea is to develop a comprehensive plan for building your retirement paycheck that considers the potential tax consequences of various approaches. ●