

## 5 Steps To Realize An Early Retirement Dream

**H**ave you dreamed about getting out of the rat race and retiring early? You could live a simpler life, pursue personal passions such as travel or recreation, and reduce your stress level. But you might think an early retirement is just for multimillionaires and out of your reach.

Think again. Early retirement doesn't have to be a pipe dream. It could become a reality through some diligent planning and dedication to your goals.

These five steps may push you along the way:

**Step 1:** Plan on spending less. Don't give up if retirement planning calculators

show you'll need much more than what you believe you can conceivably set aside. You can put a sizable dent in the "nut" you have to crack by significantly reducing your spending habits.

Remember that you won't be incurring commuting costs or a high-priced wardrobe for your job once you leave work. Furthermore, if you're hoping to travel around the world, you may be able to do it on a tighter budget than you thought. And simplifying your lifestyle—for example, maintaining just one car (or even none) instead of two—will provide savings.

Of course, life will likely throw you some curveballs, so be prepared for that by building a cushion into your plan.

**Step 2:** Downsize your home. Part and parcel of the first step to early retirement is a reduction in housing costs. For most people, this is the single largest drain on savings. Do you really need that rambling colonial in the

suburbs if your kids are grown and out of the house? This can be especially beneficial if the mortgage is paid off. You can sell the home at a sizable gain, move to a less expensive place, and pocket the difference.

Consider a retirement community if you're age 55 or older. If that's not the right fit, look for housing that's affordable but gives you the flexibility you want.



For some early retirees, it's an apartment in a city with easy access to restaurants and stores.

**Step 3:** Secure adequate health insurance. One of the biggest curveballs

could be your health. Even if you're reasonably healthy as you enter early retirement, there's no way to predict what will follow. Your retirement could last longer than you initially expected.

You are eligible to enroll in Medicare at age 65, and you can supplement it with another policy. Conduct in-depth research to find health insurance policies that provide the necessary coverage at a cost you can handle. Depending on your situation, you might opt for a high-deductible plan. In any event, you can't go without health insurance!

If you expect to travel extensively, include this in your health insurance considerations. For instance, you may decide to obtain temporary travel insurance, based on your destinations.

**Step 4:** Maximize your investments. Saving more for retirement—including how you invest your funds—may enable

## 'If You Can Keep It'

**W**hither democracy? At the close of the Constitutional Convention of 1787, Benjamin Franklin was asked what type of government the Founding Fathers had created. He famously replied, "A Republic, if you can keep it." His message: the Constitution was a blueprint for our country, but it would need to be conscientiously maintained and continuously defended.

Those of us who may be worried about the state of our country today should take heart that our Constitution has endured 230 years of developments and challenges that those early Americans could nary imagine: The Civil War, the Industrial Revolution, World wars, the Cold War, depressions (both Great and not-so-great) and the Technological Revolution. We think future challenges will continue to reinvigorate the Constitution, not diminish it.

### Early Summer Reading

**Suggestion:** *The Death of Expertise* is a timely and delightfully readable book by Tom Nichols, a professor at the U.S. Naval War College and a five-time Jeopardy champion (so you know he's wickedly smart). It examines how the Information Age has led not to an era of enlightenment, but rather one of post-truth politics and emotion-based debate. When and why did Americans stop trusting credible news, institutional knowledge, and the recommendations of bona fide experts? Can Franklin's Republic endure in an era of unreasonable and irrational public and political discourse? (We think so!)

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# Tax Rewards For Charitable Trusts

**A**re you thinking of giving a large gift to charity? A charitable trust can help you satisfy your philanthropic goals, preserve wealth for your heirs, and collect tax breaks, all at the same time. One of the most popular vehicles is the charitable remainder trust, or CRT.

A CRT requires you to give up control over the assets that you transfer into the trust irrevocably. There's no going back, so make sure the charitable trust suits your needs before you commit to it.

Typically, you will set up a CRT with a particular charity you want to support. The charity must be approved by the IRS as a tax-exempt entity. During its term, you (or another income beneficiary or beneficiaries that you specify) receive regular payouts. The CRT may last for terms of years or for your lifetime. Finally, when the trust ends, whatever is left—the remainder—goes to the charity.

There are three main tax advantages to this setup:

## 1. Regular income tax:

You're entitled to a current tax deduction for the projected value of the remainder that will go to the charity at the end of the trust's term. Your tax adviser and

charity officials can help determine the amount of your deduction.

**2. Capital gains tax:** If you transfer appreciated assets into the trust you won't owe any tax on the appreciation. And if the charity sells property from the trust and turns it into cash, you don't have to worry about capital gains tax either. However, you do pay income tax on the annual payments you receive.

**3. Estate tax:** When the remainder eventually passes to the charity at the end of the trust, those assets are removed from your taxable estate. You won't need to worry about estate taxes on the assets in the CRT.

Don't forget that you'll be receiving annual income from the CRT. It can be structured in one of two ways, which must be determined when you set up the trust because you can't change your mind later. Here are the two ways:

- **Fixed annuity method:** The CRT distributes a fixed dollar amount each year. Even if trust earnings fall, you'll still receive the same amount of money each year.

- **Percentage of assets method:** Another version, which is more common, is to base the annual payment on a percentage of assets. For instance, you might arrange to receive 6% of the value of the trust assets each year. Accordingly, your annual 6% payments will generally provide larger payouts over time, assuming the assets go up in value, but the amounts are based on market conditions.

In any event, the IRS requires you to receive at least 5% of the value of the trust each year and the charity's remainder value must be at least 10% to preserve the tax benefits.

This is just a brief overview of CRTs. For more information about this rewarding tax planning technique, reach out to your advisers. ●



# Key Documents In An Estate Plan

**T**o do a job right, you need the proper tools. And while each and every estate plan is unique, these five documents are integral elements in developing a thorough plan:

## 1. Financial power of attorney.

This document authorizes an "attorney-in-fact" to act on your behalf in financial matters. The most common power of attorney, a "durable" one, remains in effect if you're incapacitated. Another variation, which is known as a "springing" power of attorney, transfers control to the designated person only if you're incapacitated.

The attorney-in-fact may have broad powers (able to buy or sell

personal property, for example), or the role may be limited to specified tasks. This power of attorney expires when you die.

## 2. Health-care power of attorney.

This also authorizes another person to make decisions on your behalf if you're unable to do so—in this case, involving medical care, carrying out your end-of-life wishes, and related matters. Here, the attorney-in-fact is typically your spouse, a child, or a sibling. Like a financial power of attorney, it may be broad or limited and expires at your death.

**3. Living will.** While a health-care power of attorney may authorize

someone to make end-of-life decisions, establishing what will happen when you're dying is the sole purpose of a living will. Depending on the laws of your state, you may be able to use a living will to say whether or not you want life-sustaining treatment if you are terminally ill or grievously injured.

Also depending on state law, a health-care power of attorney and a living will may be able to be combined into one document. In other states, a living will may supplement a health-care power of attorney, and both documents can be coordinated with other medical directives or proxies.

**4. Trusts.** There are many reasons

# Important Financial Steps For A Second Marriage

**M**arrying again after divorce or the death of a spouse may offer great personal benefits, but it can also lead to financial complications, especially if you have children from your first marriage.

However, the blessed event doesn't have to be ruined by family squabbles. Discussing matters openly and deploying a range of estate planning strategies can help you develop a plan that meets your needs. Here are seven steps to help guide you along:

**1. Open the lines of communication.** Before you tie the knot, be up-front about your concerns and preferences. Talk to each other about your intentions and how you expect to pass along assets to other family members, including any children and grandchildren. You might find it helpful to include an impartial person, such as your financial advisor, to "broker" the talks.

Consider this checklist of points to discuss:

- Existing financial obligations (for example, a promise to pay for a grandchild's education);
- Plans for future support and funding for retirement;
- Guardianship of any minor children; and
- A prenuptial agreement protecting your personal interests.

**2. Conduct an inventory.** Now is a

good time to compile a list of your assets. This may include: stocks, bonds, mutual funds, and other investments; amounts that you've transferred to trusts; retirement funds; and proceeds that will be available from life insurance policies. Also, review any agreements made during the course of your first marriage. For instance, if you were required to name your then-spouse as the beneficiary of your retirement plan accounts, you may have less flexibility than you thought.

**3. Consider the variables.** Not everything is cut and dried. It's up to you to decide which assets, if any, you will commingle with your new spouse's. Keep in mind, though, that the laws of your state may also come into play. For instance, in community property states, the law presumes that assets will be owned jointly. But most states mandate "equitable distribution," calling for property to be distributed fairly, but not necessarily equally. You'll also want to factor in your age and health status, as well as those of your spouse.

**4. Pay attention to titles.** The way that property is titled, both prior to marriage and after, can have a profound effect. For example, setting up accounts as joint tenants with rights of survivorship (JTWROS) will make it clear that assets will go directly to the other named person, such as your

**5. Will.** Lastly is your will, which establishes how your assets will be distributed after you die and who will have custody of any minor children. You could also use it for other purposes, such as making charitable donations or creating trusts.

If you die without a will—"intestate," in legal parlance—the laws of your state will determine who gets your assets and assumes guardianship of young children. As the centerpiece of your estate plan, this is definitely one tool you shouldn't overlook. ●

spouse, when you die. But if a title names you as the sole legal owner of assets, they'll pass to your estate and not directly to your spouse.

**5. Name your beneficiaries.** If you're entering a new marriage you'll likely need to amend your existing will or replace it entirely. In particular, it's important to review the heirs you've listed in the will. Also, take a look at the beneficiary designations for all of your retirement plans, IRAs, and life insurance policies. Those beneficiary designations take precedence over whatever may be in your will.

**6. Show some trust.** Your estate plan may include one or more trusts, which can be useful in transferring wealth to children of an earlier marriage while imposing some constraints on the recipients. Here are a few possibilities:

*Bypass trust:* This vehicle could be designed to provide income to a surviving spouse, with the remainder of trust assets going to other designated family members.

*Q-tip trust:* With a qualified terminable interest property (Q-tip) trust, a surviving spouse may receive income (but not principal) when the owner dies, with children receiving the remainder from the surviving spouse's estate.

*Spendthrift trust:* As the name implies, this trust can be helpful in restricting beneficiaries' access to assets until they reach a specified age or meet other requirements.

**7. Don't forget about taxes.** Last, but not least, it makes sense for both of you to consider how to minimize estate tax on the federal and state levels. That likely means use of the generous estate tax exemption (\$5.49 million in 2017) as well as the "portability" provision, allowing a surviving spouse's estate to benefit from the unused portion of a deceased spouse's exemption. Such provisions could be included in trust documents or other estate planning devices.

The second time around, it's more important than ever to seek expert assistance from your estate planning advisors. Don't hesitate to contact us. ●





# Funding A Friend's Business Venture

**S**andy thinks her friend Danny has a great business idea—an exciting, almost revolutionary new service. Now he wants her to make a significant investment in the corporation he's starting in exchange for a 10% ownership stake.

Sandy is tempted. Why not help a friend see his vision to fruition, claim partial credit for launching the wave of the future, and potentially earn extremely handsome returns?

Though such opportunities may feel like the chance of a lifetime, one should always consider the risks. If there's any rule of thumb for investing in a private venture as a minority owner, it's that you should do it only with money you can live without.

Consider Danny's corporation. With no market for its stock, Sandy's capital is likely to be tied up for five to 10 years. That's how long it may take to build a company that can go public or attract an acquirer. During the incubation period, Sandy must be prepared to rely solely on other assets to meet her financial commitments.

Then there's the failure scenario. Unlike stock in a deteriorating public

company that can usually be sold for something on the way down, private shares' lack of marketability means the investor is strapped in for the full ride to zero.

Potential investors must keep the tax consequences in mind. Owners of S corporations, as well as partnerships and most limited liability companies, pay income tax on their share of the business's earnings, even when those profits aren't distributed. While she's waiting to get her investment back, Sandy might have to pay higher income taxes.

Still another concern is share of ownership. Assume Danny's venture flourishes and the company seeks to expand. Can Sandy remain a 10% owner? Depending on the laws of her state and the articles of incorporation, she and other shareholders may, or may not, be entitled to any new shares the corporation issues, in the same proportion as current ownership. (Partnership and LLC operating agreements, when properly drafted, indicate whether owners have the right to maintain their original percentage of ownership.) Without that promise,

Sandy's interest could be diluted and her share of the profits compromised.

Not just money but also relationships may be at risk. If the business fails, will Sandy blame Danny? Will their friendship suffer? If it does, will she mind? Even with a successful venture, resentment can arise if some of those involved feel others are prospering more than their contribution merits.

For all of these reasons, investing in a friend or relative's business can present problems from the start. Sandy should obviously research the investment before diving in, but her friendship with Danny could hinder her ability to objectively analyze his business plan and his ability to execute it, and could make it awkward to question him about the plan's marketing or financial assumptions.

Dream deals do sometimes come along, but what often separates successful capitalists from dreamers is finding the right reason to say "yes" or "no." Before you make an investment in a friend or relative's company, talk to us. We can help you analyze the numbers and evaluate the opportunity. ●

## An Early Retirement Dream

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you to retire early.

Of course, everyone's situation is different. Put together a diversified portfolio that is aimed at your objectives while taking into account your personal risk tolerance. Frequently, your assets will involve a mix of stocks, bonds, mutual funds, and perhaps other investments such as real estate and exchange-traded funds (ETFs).

International investments may also be part of that mix, though such holdings bring special risks, including the potential that economic and political turmoil and currency fluctuations could affect the value of your investments.

**Step 5:** Count on taxes. Finally, don't dismiss taxes as a factor. Even if tax rates

fall soon, they could rise again, and taxes will always erode your retirement savings to some degree. One strategy that may help is moving to a state with lower state tax rates.

Cashing in stocks during your retirement will result in capital gains, currently taxed at favorable rates, while distributions from retirement plans such as 401(k)s and traditional IRAs are taxed at higher, ordinary income rates. Also, withdrawals you take before age 59½ may be hit with a 10% tax penalty. (Roth IRA distributions can be tax-free, but you may still be penalized if you withdraw funds too early.) Remember that you must begin taking

required minimum distributions (RMDs) from most retirement plans and traditional IRAs after age 70½. In addition, Social Security benefits are usually subject to tax.

These steps can help take you closer to your dream of early retirement. ●



*Income-generating investments such as stocks, bonds, mutual funds, ETFs and real estate may offer attractive yields and other benefits, but they are complex investments with unique tax characteristics and significant risks. As a result, these investments may not be suitable for all clients. It is important to understand all the features, characteristics and risks of any particular investment offering under consideration. Consult with a tax advisor before investing in such income-generating investments.*