Fall 2017 Edition

The Ultimate Guide for the Successful Steward

Welcome to the Fall Edition of *The Ultimate Guide For the Successful Steward,* Fourth Dimension Financial Group's newsletter.

This issue of the *Steward* marks the five-year anniversary since it began. In October of 2012, we introduced you to this oddly named newsletter, featuring case studies, investing commentary, and even the occasional book review. We've witnessed client family vacations shown through your own photos, and also discussions of the critical components of a well-built retirement plan through our Back To the Basics features, which was a client-requested section. Before our Fourth Dimension Weekly email newsletter existed, the Steward arrived in homes every month, admittedly a herculean logistical task. While change is a requirement in serving you as best we can, what's funny to me is how little has changed in our world over these five years, as evidenced by this excerpt from the opening paragraph in that first issue:

On one of those rare occasions when I turn on the television or sneak a listen to what's passing as news on talk radio, I am shocked by what I see and hear. War, indecency, lying, profanity, and downright small-mindedness. And that's just the presidential election. It seems that we cannot escape the tumultuousness of these trying times.

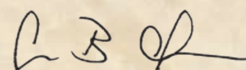
While we're not in an election cycle at the moment, this all sounds too familiar. As a result, I find comfort in knowing that the work we do does in fact change and evolve, but we're able to look back and see that there are some things we can count on continuing on.

Our mission hasn't changed. We still work tirelessly to provide planning services to allow aspiring retirees to achieve 'enough.' We know that retirement can mean a lot of different things to different people, yet we fundamentally want the same thing. We want to live a life that has meaning and purpose without the worry that can often flood our minds when it comes to money matters. We want to free ourselves from financial anxiety by way of sound income planning, disciplined investing, and adjusting as we go. We seek to identify the many risks facing a retiree and hedge those risks through prudent use of financial tools designed to do just that. When these matters have been tended to, we can confidently get back to living fully, which is the very point of it all.

In light of this continued mission, we're fortunate to have contributions from our friends, Richard Chamberlain of Chamberlain Law Group, and Stephen Hanley of Evergreen Wealth Management. Richard shares some great advice concerning the way we own and pass on assets, while Steve illustrates how a crazy farmer can derail our investing efforts if we're not aware and disciplined. Both provide extremely valuable insights, so thanks to each for their efforts.

Thanks to you for continuing to stay engaged with us. Without you and your steadfast commitment to excellence, we'd have no reason for ours. It's truly an honor to serve you and play a role in your life. Where will we all be in five more years? I'm excited to walk alongside you as we figure it out.

All the best,



Adam B. Cufr, RICP®

With a new baby in the house, it's great to have older girls to help. Here's Anna, Rosalie, and Nora having fun.

Back To The Basics:

It has been brought to our attention that a return to the basics of financial and retirement planning would be helpful. Back to the Basics is a study of the fundamentals.

So much attention gets paid to the growth (or decline) of the stock market that I fear we can become hypnotized by it and fall prey to sloppy fundamentals from time to time. How do I know this? Because many of the people we work with admit to receiving each investment statement and simply doing the ol' "Is it up or is it down and by how much?" analysis. The performance of the portfolio is the only metric that receives any attention. For a moment, I want to ask you to consider a few different ways of looking at your financial world that may increase the total value of your hard-earned assets.

1. Reduced spending increases "wealth":

Let's say the investments in your nest egg average 5% return between retirement and your demise, just to keep the math simple. For every $1,000 of annual income you need during retirement, you need $20,000 of accumulated savings ($1,000 / .05). Thus, if you need $40,000 of income per year from your investments (not counting Social Security, pensions, etc.) then you will need $800,000 of savings. Using this math, if you are able to live on $10,000 less per year, that's the equivalent of adding $200,000 to your nest egg. Do you see how this works? And this doesn't factor in the tax reduction of withdrawing less taxable income each year.

2. One more year of work creates a huge pay raise:

What if you chose to work just one more year before retiring from paid work? Working an additional year can significantly increase your retirement income in several ways. Every year that you can postpone withdrawing money from your nest egg, the more that money can grow. Let's say you are 62 and earning $80,000 a year. You've saved half a million dollars, and it is earning 5 percent on average. If you wait one more year before retiring, you earn an additional $80,000 of income from your job and you save a

year's retirement expenses of, say, $50,000. That's money that won't have to come out of your nest egg now, and it is gaining interest of $2,500 ($50,000 x 5%). When you add it up, it means you actually are making $132,500 by choosing to work one more year. And that doesn't even include the 7-8 percent boost you get in your Social Security benefits by waiting an additional year. If you are questioning whether you are going to have enough to retire, one more year will make a profound difference in your overall retirement income. Knowing that, you might have a whole new outlook as you head off to work in that last year.

3. Cut Uncle Sam's Allowance to increase yours:

Here's another idea. Many retirees have money in tax qualified accounts (IRA's, 401K's) that will trigger income tax when withdrawn. They may also have some already taxed money as well (Roth IRA or non-IRA mutual fund account). For simplicity's sake, let's assume a 20% tax rate. That means the IRS "owns" 20% of your IRA and 401K accounts if you intend to use the money for retirement income. Rather than use only 401K and IRA money to create income, what if you used a combination of taxable and non-taxable accounts to maximize the 15% tax bracket, rather than push income into the 25% bracket? The effect is to increase the value of your nest egg by the amount of the tax savings. In this case, it's a 25% reduction in total tax owed ((1-.15)/.20). That's like growing your money without taking on more risk.

Discover the hidden costs of investing:

Did you know that owning mutual funds may be much costlier than you thought? The average mutual fund may have internal expenses of 3.17%. According to several high profile studies (Price 3/1/10, Bernicke 4/4/11, Benz 10/27/09) mutual funds are not required to disclose the extent to which fees act against mutual fund real returns. The consequence is lower returns for the same amount of risk in an investment portfolio. If you were able to reduce the fees from 3.17% to 2.00%, you'd see a 40% reduction of internal fees. A reduction of fees means you keep more of the returns, allowing you to take less risk for the same results or net higher potential returns with a similar risk profile.

There is no doubt that great investment returns are what we're all after. Please do not overlook opportunities to enhance the total value of your assets by using a holistic approach to your planning. Sure, the headlines aren't as sexy but the benefits can be significant.

Please consult with a tax professional for specific tax matters. If we can help you with any of the above, please give us a call at **(419) 931-0704** or email Dave@FourthDimensionFinancial.com.

The Beauty of Investing

Inspired by Warren Buffet's 'Crazy Farmer Analogy'

Stephen L. Hanley,
Investment Strategist
Evergreen Wealth Management

I am constantly amazed at the vast array of opinions and approaches to investing. It seems like every year something new is created that will change the investing world forever. Yet, after two huge fairly recent downturns and rebounds, experience has proven that not much has actually changed. Investing remains a process of assigning a current value to a future stream of cash flows.

Imagine for a second you own a farm, and every year the farm produces enough harvest for your family to eat, enough to sell for spending, and even some to store away for emergencies. You know the land and weather patterns well, so you remain confident in your farm's ability to produce a similar amount for years to come. You are at peace because the farm takes care of your every need.

Now imagine you have a crazy neighbor who also farms, who we'll call 'Mr. Market.' Mr. Market isn't shy; he comes to your fence every day and offers you a price at which he'll buy your farm. Some days he yells out crazy low numbers and other days he shouts more intriguing prices. On one particular day, he yells out a number that is so absurdly high that you could sell and buy two more farms somewhere else and produce even more food than you are currently.

Investing in the financial markets isn't much different than owning a productive farm next to the crazy farmer. As investors, we own great companies at fair prices that produce cash flow or income for our current and future needs. We understand them well, we know they will be around for a long time, and given enough time we will not only have all our needs met but may have a crazy farmer offer us a crazy high price.

This is the beauty of investing and one reason I love the work I do. Every day I get to listen to the farmer (Mr. Market) at the fence yelling out prices. I look at what our holdings actually produce for our portfolios and how the growth and income can be used to meet families' specific needs. I can either ignore the crazy farmer's prices (Mr. Market) or accept his offer to sell. Every day I get to see us meeting the needs of our clients so they can live life while ignoring Mr. Market's erratic behavior.

Over the past 12 months we started to warn of the crazy farmer and the prices he will likely be yelling out

sometime soon. When a decline finally does happen, Mr. Market will blame all sorts of things to justify his price. "The weather is gonna be bad tomorrow, disease is gonna kill your cows, government is gonna tax you more…" But we know better because we know that if a cow dies, we have a new calf taking her place. If the weather turns sour, it will clear the next day. If the government changes, we'll have emergency reserves to buy more farms. As long as we can take care of our family with the available harvest, we can ignore the crazy farmer's rants.

2017 has proven to be a fruitful year and we are pleased to see plans flourish. We expect the future harvest to build, and no matter what happens, we know your family's needs and objectives can be realized. Planning was done well in advance to prepare for the many variables of the market and economy. Careful attention to detail has been placed on validating that the necessary cash flow is available at the point in time you need it, regardless of market ups and downs, and even the antics of Mr. Market.

Steve's Quarterly Market Update

At the conclusion of each quarter, Steve summarizes the ins-and-outs of the markets and economy that matter to long-term investors. Here's a short excerpt:

Q3 Market Update

Third quarter continued the year's steady march upwards with low volatility and consistent gains. The Wilshire 5000 Stock Index added 4.44% while the Barclays Aggregate Bond Index added a steady 0.74%. This moves stock returns to over 12% for the year and the aggregate bond market over 3%...

To read the Q3 Market Update in its entirety, please go to:
www.investevergreen.com/market-update

Using Beneficiary Designations to Avoid Probate

Richard Chamberlain,
Founder and principal attorney
of Chamberlain Law Group, Ltd

Probate: *the judicial process whereby a will is 'proved' in a court and accepted as a valid public document that is the last testament of the deceased.*

Most people have 'avoid probate' as one of their estate planning goals because the process is public, lengthy, and expensive. Some people will suggest that you should put beneficiary designations on your assets (transfer on death (TOD), or payable on death (POD) designations) to avoid probate. While these kinds of beneficiary designations do avoid probate, it is not always the best idea, and can sometimes fail to achieve your needs and goals.

Take a look at the three ways that using beneficiary designations to avoid probate can fail you:

1. If your beneficiaries don't survive you, the asset won't avoid probate.

With POD and TOD designations, the asset is set up to be distributed to a designated person (or people) upon the owner's death. For example, Mom sets up her bank account, POD to her daughter Sally. When Mom passes away, her account is transferred to Sally, without any probate involvement. However, if Sally passes away before Mom, then there is no living beneficiary to pass the account to, so the account becomes a probate asset. In that case, the beneficiary designation failed to avoid probate at all.

2. With beneficiary designations, there is no centralized fund from which to pay expenses and taxes.

As we saw above, assets that have beneficiary designations are distributed directly to the beneficiaries upon the death of the owner. If the owner names more than one beneficiary on assets as a way to avoid probate, then this can create real problems with getting the estate administered and critical issues taken care of.

In any estate, whether it is a probate estate or not, there will be issues that need to be addressed. For example, final bills, medical expenses, and funeral and burial expenses will need to be paid. Someone will need to file and pay the final income tax return for the decedent. Someone needs to be given the authority and direction to do these things, and must be given the funds with which to pay these expenses. If assets are distributed directly to the beneficiaries, then there is no fund available to pay all of the expenses.

We have met with a large number of families who suspected this would not be a problem for them because "everyone gets along" and "they'll just figure it out." In some of these situations, it all worked as expected, but in a number of them (much too large of a number, in my opinion), the situation turned sour. Not everyone was willing to contribute their share of the expenses and taxes from what they had received, leaving the others responsible for paying everything. That creates the potential for damaging, sometimes irreconcilable, conflict.

3. You cannot protect your beneficiaries using beneficiary designations

With beneficiary designations, the assets are given directly to the beneficiaries as an 'outright' distribution. In these cases, the assets are not protected. Here are some examples of what can potentially go wrong:

- Judgment creditors can seize or garnish a beneficiary's inheritance to satisfy their claim (even if it's a 'frivolous' lawsuit).
- Bankruptcy courts can seize a bankrupt beneficiary's inheritance to pay creditors and costs.
- Probate courts can impose 'living probate' if a beneficiary is now or later becomes incapacitated.
- A divorce court might award some or all of a beneficiary's inheritance to a soon-to-be ex-spouse.

The solution is to use a *revocable living trust* instead of beneficiary designations. With a trust, you can not only avoid a public, lengthy, and expensive probate process, but also plan for contingencies, avoid the risk of disputes, and provide protections for your beneficiaries.

While trust planning isn't right for every situation, there are many, many circumstances that are often overlooked until after it's too late, that could have benefitted from a revocable living trust. Naturally, the best way to determine which approach is right for you is to seek the council of an attorney. Please let us know if we can address any questions you may have.

Briefcase Study: Transition into Retirement

A number of couples that we work with recently found themselves working through a change in their life: the transition into retirement. When a long career ends, what steps might we take to best prepare for that big day? Here's a helpful list.

As you read through this, please remember that no transition is perfect; obstacles and challenges can appear at any time. The key is to expect it and plan accordingly. Please let us know if we can be helpful to you in any area.

1. Reduce or eliminate debt.
2. Create an emergency fund cash reserve (six months of expenses is a good place to start).
3. Apply for any financing, such as a home equity line of credit, before you retire – even if you don't use it, you will have it readily available should you need it.
4. Determine the best day to retire to maximize your employer benefits before you retire.
5. Control your spending and identify additional expenditures you will have once you retire, such as travel, etc.
6. Decide on the lifestyle you plan to have in retirement.
7. Evaluate your pension plan payment options, lump sum, annuity options, etc.
8. Calculate how long your money will last – a financial advisor can help you with this.
9. Inform your insurance agent that you will no longer be working (your auto insurance premium could possibly be reduced).
10. Document any email addresses and contact information, events stored in your calendar, and special websites in your bookmarks.
11. Decide if you should rollover your 401(K) or 403(B) to an IRA.
12. Review your Social Security statement to ensure your reported income is accurate.
13. Determine when you should apply for Social Security Benefits.
14. Understand what your health care coverage and cost will be after you retire.
15. Determine when to apply for Medicare.
16. Become aware of the Required Minimum Distribution, mandatory withdrawals from IRA accounts, once you turn 70-1/2 years of age.
17. Determine if you will need an income stream beyond your pension, Social Security benefits, and savings.
18. Update your will and estate planning – powers of attorney, beneficiaries on retirement accounts, etc.
19. Consider your need for Long Term Care.
20. Enjoy the benefits of your hard work!

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Fourth Dimension Financial Group exists to help people seeking financial retirement achieve enough, live fully, and help others do the same. Appearing regularly in national industry publications and local media for retirement planning insights, Adam and his team of highly-focused and passionate advisors help clients achieve greater clarity in their planning.

Fourth Dimension's clients benefit from the use of world-class income planning, tax reduction, and risk management strategies, resulting in a retirement plan that works in any economic conditions rather than one built on hope and luck.

To your success,

Founder, Principal, and Retirement Income Certified Professional®

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