RETIREMENT PLAN STRATEGY CHECKLIST

How Does Your Strategy Measure Up?

by Jeff Dietz, RICP

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Dear Future Retiree,

I'm so glad that you requested your Retirement Plan Strategy Checklist!

I'm confident that you'll find this resource both very educational and eye-opening. I do have to warn you that you may find the information and ideas to be contrarian to what passes for the conventional wisdom when it comes to retirement planning.

There are two phases of retirement planning and it's essential that your money is protected during both phases. Whether you're still working and in the accumulation phase or already retired and in the often-mishandled distribution phase, the fact remains that most people are taking far too much risk for too little reward while also exposing too much of their future retirement income to taxes.

As you work your way through each of the items in the checklist, ask yourself if your current retirement strategy meets these highly desirable objectives:

- ✓ **You're confident your retirement plan is good for YOU, not Wall Street and the IRS**
- ✓ **You sleep well at night, free from stress and worry, knowing that your retirement is safe and secure**
- **You know your retirement income will be as close to fully tax-free as possible, so that your money lasts far longer and you'll enjoy more of your hard-earned retirement savings**

I'm on a professional mission to help as many individuals as possible remove the needless risks of Wall Street we've all been told that we **must** endure to have a successful retirement and to keep the sticky and greedy fingers of the IRS off of your hard earned money, both while you're working and - even more importantly - during your retirement years.

If you have any questions or would like your current strategy reviewed in terms of risk and reward as well as current vs. future taxation, please contact me at 804-608-9775 or jeff@jeffdietzfinancial.com.

Yours in successful retirement,

Jeffrey M. Dietz, Retirement Income Certified Professional

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You can be on the so-called "right track" and still get run over by the train!

Invest in your 401k or similar workplace retirement plan; that's what we've all been told.

So you do it. Diligently setting aside money from every paycheck.

You lower your current tax bill with pre-tax contributions … awesome!

You have 47 different investment options to choose from … cool, I'm in the market!

But what if I told you there are major flaws involved in following this advice?

- Human Resources won't tell you about them, because they either don't know or they don't understand.

- The IRS and the government certainly do not want you to know the implications of saving on taxes now vs. paying them later.

- Wall Street would never tell you just how risky their investment vehicles are because their business model is based on having as much of your money under their management as possible to collect ongoing fees on those assets.

These flaws arise from the fact that the 401k is really an "accidental" retirement program, never intended to be used the way it is now utilized by millions of workers.

Ever increasing stock market volatility, combined with the highly likely scenario of rising taxes over time, can and will converge to threaten what may appear to be a solid retirement nest egg and make it quite shaky and uncertain.

Neither your employer, the government, nor Wall Street are going to tell you about the risks, because they don't have to live with the consequences and, in some cases, actually benefit from your lack of awareness. The impact on you: less spendable income in retirement that results in a lower quality of life. This may show up as travel dreams left unfulfilled or less money for leisure activities like golf, or perhaps in the form of putting off buying a new car, clipping coupons or watching the thermostat like a hawk. It could even show up as returning to the workforce in retirement, either full-time or with a part-time "retirement job" to make ends meet. Whatever your retirement goals are, the 401k is not what it is cracked up to be as a vehicle to achieve them.

How did we get to this point where, by-and-large, people march in lockstep, dutifully contributing to their 401k without even questioning if it is the best strategy for them? First, let's look at how the 401k even came to be and then we'll turn to the problems it has created.

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Time was, people would work for an employer for a long period of time and, at the end of that employment, they would receive not only a gold watch but also a pension that would provide a steady stream of income for the rest of the retired employee's life. Over the past 30 years, however, pensions have slowly been replaced by the 401k plan. The 401k is now the most commonly used retirement asset accumulation vehicle in the United States, which is ironic because it was never intended to be any such thing.

The 401k was born in 1978 and was intended as a supplement to the pensions of corporate executives **in addition** to their pensions. The pension was still meant to be the foundation upon which to build a secure retirement, and the 401k was meant to be a supplement – not a replacement – and it was only intended for a select few employees, not the public at large.

However, pensions are expensive to fund and maintain, and Corporate America loves to cut costs. It's far less expensive for them to guarantee a small contribution for an employee – the "matching contribution" – than it is for them to sufficiently fund a pension that guarantees a lifetime income that flows to the employee in retirement. Corporate cost cutting, combined with the waning influence of unions, resulted in pensions slowly fading away and 401k plans growing in popularity as the choice of corporations. The certainty of pension income was replaced by employees fending for themselves, setting aside (or not) their money in order to save for their retirement, and managing a portfolio for their later years while given little or no guidance. We now live in a world where pensions are rare and 401ks are the norm, resulting in serious implications for employees contributing to them and planning to rely upon them.

On the following page is a snapshot graphic of the state of retirement in America today. There are some rather sobering facts and statistics on it, some of which can seem quite daunting or even scary. Wherever you are on your journey towards retirement, there is still time to improve your end results and there is no time like the present to either get started or take corrective actions so that you can achieve your retirement vision!

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The State of Retirement Savings In America Today

The picture above raises some serious concerns and I would encourage you to reach out to me so that you can avoid these pitfalls and achieve the retirement that you are working so hard to get to one day.

The **Retirement Plan Strategy Checklist** that you requested begins on the next page. Think about your current retirement strategy and if you answer "NO" to any of these questions then we really need to talk. Most likely you will answer "NO" to a lot of these questions, perhaps all of them, because the centerpiece of your retirement strategy is likely a 401k or similar workplace retirement plan. There is a better way than the 401k and I would very much like to share it with you!

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Retirement Plan Strategy Checklist

Does your current retirement plan …

1. Avoid all downside market risk and enjoy only upside market gain?

When you experience losses in your portfolio, you not only lose money on paper in the near-term, but you lose time – the time it takes to get back to where you were before the loss. Time is one thing that we cannot create more of and so losing time simply to get back to where you already were will undermine your ability to achieve your goals.

What's worse is if that loss occurs close to your planned retirement date or shortly after you retire.

- If that loss occurs in the few years before retirement, you may have to defer retirement like so many people had to do in 2008 and 2009 when the housing bubble popped and sent the stock market into a freefall.
- If you had retired in say 2006 or 2007 and then experienced that kind of loss to your retirement portfolio, such a dramatic loss could affect your ENTIRE retirement – the retirement that you had been working towards for 40+ years. Such an impact could mean curtailing your planned standard of living or going back to work to make up for the losses.

Warren Buffett states his rules as follows: **Rule No. 1: Never lose money. Rule No. 2: Never forget rule No. 1.** There is a safe way to enjoy only the gains of the market while not suffering from the losses.

2. Offer fully TAX-FREE distributions?

You can save for retirement in one of two ways: either on a pre-tax basis in a 401k, 403b, traditional IRA or similar plan, or on an after-tax basis where there are a few options as well. **The government only gets one shot at taxing your income.** If you choose to save for retirement on a pre-tax basis, money from your earnings is deposited in your 401k (or similar plan) untaxed, your taxable earnings are reduced, and your current tax burden is lightened. Upon distribution in retirement, however, not only are the contributions taxed (because they were not taxed previously) but so are all of the earnings that resulted from those contributions. While it may not feel like it in your daily life, taxes are currently dramatically lower than they have been historically. **With $27 trillion in national debt, a fresh trillion dollars of debt being added each year for the foreseeable future (in 2020 we added $4 trillion in total due to COVID-19), tens of trillions of unfunded liabilities in Social Security, Medicare and Medicaid, and taxes at historically low rates now, there's really only one reasonable expectation for tax rates in the future: Higher. Much, much higher.**

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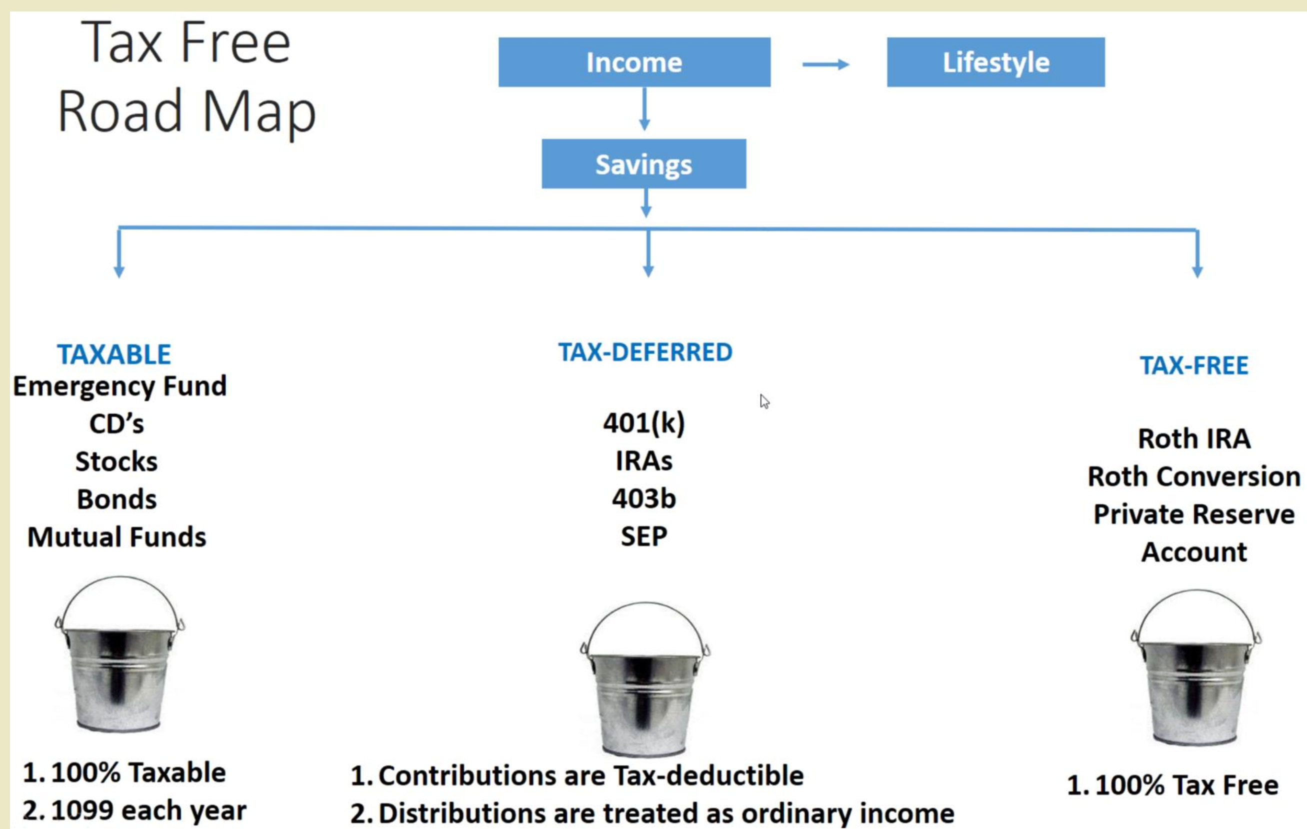
Pretend for a minute that you're a corn farmer. It's spring and it's time to plant seed corn for the yearly crop. The government shows up and offers you a proposition: You can pay taxes now at a really low rate on just the seed corn … or you can wait until the harvest and pay taxes then on the full harvest, all of the kernels on all of the ears of corn – and, oh, by the way, tax rates are going up right before the harvest begins. Which sounds like a better deal? Investing in a pre-tax 401k is similar to paying your taxes on the whole harvest of corn.

What is even more troubling about all of this is that no one knows exactly how large that tax bill will be. The problem there lies in the fact that in a 401k or traditional IRA, you have a partner in your retirement plan – and that partner is Congress. **And it's Congress that gets to decide how much of your retirement money that you get to keep.** Wouldn't you like to not be shackled to Congress and their taxing authority?

If you would allow me, I'd like to show you how to pay tax only on the seed corn and avoid a huge tax bill in the future.

3. Have SIGNIFICANT income tax diversification?

In order to minimize your overall taxation in retirement, you will need money in three different buckets of money: 1) the taxable bucket, 2) the pre-tax, tax-deferred bucket, and 3) the tax-free bucket. Take a look at the diagram below to better understand the buckets and what can go into them.



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The best scenario during the distribution phase of your retirement looks as follows:

1. As much money as possible coming from tax-free sources
2. Any money accumulated in tax-deferred plans (in order to get the "free" dollars from the employer match) and any funds accumulated prior to discovering "safe money and tax-free" alternatives being taxed at the lowest rate possible
3. A taxable (cash) source for a rainy day or emergency fund

What I often uncover during planning sessions with my clients is that most people have the largest portion of their assets in the tax-deferred bucket and little to no money in tax-free bucket.

This will expose their retirement assets to maximum levels of taxation, depleting their income generating assets far faster, as more of their account balance must be withdrawn in order to meet their after-tax income needs.

By blending previously accumulated tax-deferred assets with new sources of tax-free assets, you can reduce your overall tax rate in retirement and preserve your assets to produce income for you for far longer.

4. Have unlimited contributions?

In 2020, the IRS has limited 401k contributions to $19,500 for workers under age 50 while workers 50 and above can contribute as much as $26,000 through "catch-up" contributions. While those limits will not matter much to the average American worker, chances are if you're reading this then you could meet or surpass those limits. Because of future taxation, and the fact that today's tax rates are so low which provides very little immediate tax relief, there are better places to save for retirement than in a pre-tax 401k (again, you'd probably still want to contribute enough to get the matching contribution, if one is available). To save enough for retirement and avoid the oncoming tax freight train**, you need a vehicle that allows for virtually unlimited contributions AND has tax-free distributions in retirement. The pre-tax 401k certainly is not this vehicle (it fails both tests), and neither is the Roth IRA. The rich and the ultra-rich, however, utilize a strategy that is almost unheard of to everyone else.**

5. Have no earnings limit for contributions?

The 401k does not have a limit on how much you earn so that you can contribute, but IRAs certainly do. The combined contributions to a traditional and Roth 401k are capped at a $6,000 contribution for 2020 ($7,000 for workers 50 and older) and for a Roth IRA you can only contribute the full amount if you earn less than $124,000 as a single person or $196,000 as a married couple. The Roth IRA has tax-free distributions, but contributions are severely restricted. Therefore, the Roth IRA isn't a viable vehicle for saving your retirement to a large degree. **You need a vehicle that will allow for unlimited contributions and is not restricted by income limits in order to save enough for retirement in an efficient manner.**

6. Avoid counting against you and your child(ren) for college financial aid qualification?

One of the financial challenges that face many families is the dual goal of paying for college and saving for retirement. When being considered for financial aid, the assets of both the parent(s) and the child(ren) are considered in calculating total financial resources. This includes workplace retirement plans. **Fortunately, there is one unique exception, clearly spelled out right in the financial aid application, that allows an unlimited amount of assets to be excluded from the financial aid qualification calculations.** This means dollars held in this unique asset are excluded for both the parent and the child. This means that you can not only save towards your retirement, but these very savings can help the family qualify for more financial aid.

If properly structured, these dollars can serve two functions; they can help pay for college without setting retirement accumulation off track. If you have children who are college-bound, we should talk.

7. Avoid taxation of Social Security benefits?

When Social Security was originally created, it was intended to be a tax-free benefit to senior citizens. Now, however, with even modest amounts of income, a retiree can be taxed on up to 85% of their Social Security benefits. To add insult to injury, half of your Social Security benefit is included in this "provisional income" calculation! The money that is withdrawn from pre-tax accounts like a 401k counts as income for the year, and once you cross $34,000 in provisional income as a single person, or $44,000 for a married couple, **you'll pay taxes on 85% of your Social Security benefit – and it'll be taxed at your highest marginal tax rate!** That is simply outrageous for a benefit that you've been paying into for your entire life and was intended to be tax-free. Yet that's where we are. **This situation is avoidable and can be accomplished with a well-thought out retirement strategy.**

8. Allow access to the account value without penalty before age 59 ½?

Getting money out of your 401k before age 59 ½ is difficult at best and may not even be possible. Most plans offer 401k loans and hardship withdrawals, but employers are not obligated to provide these options. Most employers do not allow in-service withdrawals so that you can roll over the money to an IRA. If you discontinue your employment, you would be able to tap into those 401k funds, but in addition to paying income taxes on any withdrawals, you'd also have to pay a 10% early withdrawal penalty if you're younger than age 59 ½. As you can see, **a 401k is not a good place to go looking for a sizeable amount of money should a sudden need arise, or even for a very much expected need like paying for a child's college education.** Fortunately, there is a vehicle that allows you access to your account value at any age, without early withdrawal penalties, may or may not be paid back (your choice), grows tax-deferred and whose distributions are tax-free. **Let's talk about this retirement plan so that you can have all of these benefits and not be hamstrung by the restrictive nature of the 401k.**

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9. Let you avoid Required Minimum Distributions after age 72 if you don't need the money?

The government has the right to tax your income exactly once. When you invest in a 401k on a pre-tax basis you are postponing when that moment will be. But the federal government will not let you postpone paying taxes for forever, and when you turn age 72 you **must** start taking what are known as RMDs – Required Minimum Distributions. You are forced to take at least the RMD amount from your 401k and IRA each year, whether you need the money or not. You would end up paying income tax on those distributions and now that money is in a taxable account (such as checking, savings, or money market) and no longer growing on a tax-deferred basis. **With proper planning, you can minimize those RMDs, which minimizes taxes and allows more of your assets to keep growing tax-deferred for longer. To accomplish this, we will need to plan, execute, and revisit a well thought out strategy.**

10. Offer advice and guidance to safely grow your money, avoid losses, minimize taxes, and plan for the other issues related to retirement?

Not only has the burden of investment contributions and decisions shifted away from the "done for you" structure of pension plans to the "it's all on you" nature of 401ks and other workplace retirement plans, employers are usually prohibited from giving their employees any retirement planning advice or guidance.

That is where I may be of service to you and your family. As a **Retirement Income Certified Professional**, I have specialized training and the experience to ask you the right questions and help you arrive at the right answers and the right plan for your retirement security and success. I would be happy to meet with you to discuss the results of this checklist and answer any questions you might have about your retirement planning.

The fastest and easiest way for us to connect is for you to schedule a meeting on my calendar. Go to https://calendly.com/jeffdietz and schedule a time soon that is convenient for you. We can talk over the phone, meet online, or I would be happy to take you to lunch or go for coffee.

If you prefer, you can reach me at 804-608-9775 (call/text) or email me at jeff@jeffdietzfinancial.com.

I sincerely hope this Retirement Plan Strategy Checklist has made you aware of issues that might not have been on your radar and, whether we work together or not, I encourage you to explore these issues further so you can enjoy the retirement that you deserve – a retirement that is free of financial stress and uncertainty.

MY FAVORITE LESSONS LEARNED ABOUT PERSONAL FINANCE AND SAVINGS

"Rule #1: Never lose money. Rule #2: Never forget rule #1." **– Warren Buffett.** Utilizing strategies that cannot lose money due to market fluctuations, my clients get to experience the joy and rewards of market gains without enduring the agony of market declines or the time it would take just to get back to being where they started.

"Compound interest is the eighth wonder of the world. He who understands it, earns it … He who doesn't, pays it." **-- Albert Einstein.** Compound interest is extremely, almost unbelievably, powerful whereby you can earn interest upon interest. The earlier that you can unleash this unparalled force the better your results: time is the most valuable asset in the world, especially when it comes to savings and wealth accumulation.

"If you don't find a way to make money while you sleep, you will work until you die." **– Warren Buffett.** Interest compounds morning, noon, and night. We will indeed work for our money, but our money will also need to work for us and in the most efficient manner possible.

"Begin with the end in mind*." – Number 2 of Stephen Covey's *7 Habits of Highly Effective People*.** This principle was not originally intended as advice for retirement planning, but it certainly applies. If you don't define your goals, then how will you know if you've reached them or are even on the path to reaching a desirable outcome? The "end" is a safe, secure retirement that not only preserves your current standard of living (and perhaps even enhances it), being able to sleep soundly at night without worry, and leaving a legacy to your children, grandchildren, church, charity, or college should you so desire.

"A penny saved is two pence clear." **– Benjamin Franklin.** Ben Franklin never actually said "A penny saved is a penny earned" but he knew that saving a penny from foolish purchases and debt was the equivalent of two pennies free from debt – one penny would be required to get you back to even and another penny to get you into positive territory.

"We don't have to be smarter than the rest. We have to be more disciplined than the rest." **– Warren Buffett.** Saving for the future requires the discipline to set aside funds that could be used for temporary enjoyment in the present so that we can have a promising future. This does not come easily to most people in America's culture of instant gratification but if you have read this far then I suspect that you have the motivation and discipline to succeed in this crucial task. And I'll help you!

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ABOUT THE AUTHOR

Jeff's primary focus is in creating a secure, stress-free, and tax-free retirement for his clients. He's on a professional mission to help as many individuals as possible remove the needless risks of Wall Street we've all been told that we must endure to have a successful retirement and to keep the sticky and greedy fingers of the IRS off of his clients' hard earned money, both while you're working and - even more importantly - during your retirement years.

As a Retirement Income Certified Professional, Jeff works with his clients to not only build their retirement nest egg, but to also create an optimal strategy to manage the often-mismanaged distribution phase. The goal is to maximize spendable income, through tax minimization, so that one's assets provide for their desired lifestyle for their entire life without fear of running out of money. Conventional financial advice is geared almost exclusively towards the accumulation of assets, which is of course very important, but there's very little emphasis on how to manage those resources in retirement such that taxes are minimized, people can sleep well at night without worrying about each and every stock market gyration, and live a fulfilling retirement without running out of money. Jeff helps his clients both accumulate their wealth and then use it optimally when they need it.

Jeff holds a Bachelor's degree from Virginia Tech in Chemical Engineering and a Master's degree from The University of Virginia in Systems Engineering. He is the proud father to two outstanding sons and is a very active member of Woodlake United Methodist Church.

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