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(503) 371-3333
960 Liberty Street SE
Suite 210
Salem, OR 97302
www.planningvisionprocess.com

COMMENTARY BY:



Ron Kelemen, CFP®



Mary Way, CPA, CFP®



Alex Sheppard, MBA

Creators of The Planning
Vision Process®

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Are You Psychologically Ready to Retire?

(Note: This is an update of a very popular article Ron first authored in 2000. Since then, our experience working with clients near and in retirement has reinforced our belief that retirement planning is more about vision than number crunching. A more expanded version for financial advisors will appear in the April 2006 issue of Research Magazine, co-authored by Ron and freelance writer, Marie Swift.)

We call them “Boomerang retirees.” They are the clients who retire, but after a brief retirement, are back at work again. Not because they needed the money, but because something in their lives was missing. Others come back to work because they can’t handle the stress of not having a steady paycheck, in spite of our assurances that they have plenty of money.

The transition to retirement can be stressful. But with careful planning and serious thinking, it can also be fun and exciting. Here are some things to think about.

Money Issues

We have noticed that we get more anxious questions from newly retired clients about the economy and world events. We believe that it is because they have more time to catch financial shows on 24-hour news channels and check their account balances on the Internet. News junkies and clients on the “frequent checker” program can become more pessimistic and less risk tolerant.

When you retire, you have basically changed jobs. You have left the structure and relative security of working for someone or the routine of running your own business. You are now “self-employed” in an unstructured environment, managing retirement and the income sources that support it.

All of a sudden, your portfolio takes on a whole new meaning. It’s all you’ve got for the rest of your life. Regardless of how convincingly we can demonstrate that one has enough capital to last a long and comfortable life, some of our new retirees fear that it won’t be enough.

One of the things they tend to do is “circle the wagons,” wanting to convert everything to cash at retirement. This is fine if you are going to die within a year, but one usually needs less liquidity in retirement than in the early years of running a business and raising a family. Retirees generally are debt free, cannot be laid off from work, and have Social Security and Medicare. They could potentially be retired longer than they worked, so they need to invest with a long-term horizon.

The remedy for this “protect-the-principal” mindset is to know your financial independence number. In other words, how much capital do you need to be financially secure? Retirement is a confidence game where good financial planning can increase your odds of enjoying retirement. With time, sound financial projections and good advice, most retirees eventually learn to relax, stop fretting and start enjoying their new lifestyle.

But retirement readiness is not just a personal reconciliation about money. Many other factors create an adjustment challenge, particularly for professionals. Here are the major ones.

Personal Identity And Fulfillment

Ask most people what they do, and they will probably respond with a noun, rather than a verb. “I am a (fill in the blank).” We become our job titles, and it’s hard to suddenly give that up and become a “private citizen” again.

Retirement is built on the assumption that leisure time is more fulfilling than work time. For some people that assumption is very true and they love their newfound freedom. For others, especially those who enjoyed their careers, that assumption is false and goes against the grain of their need to be productive.

For some, a great retirement is filled with volunteer activity or work (but only the type they like and want to do, and on their own terms)—not because one *has* to, but because one *wants* to.

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Many early retirees don't stay retired very long. After a year or two they've learned that, at least for them, there's more to a good life than just golf, hobbies and travel every day. As Shakespeare said, "Leisure is a beautiful garment for a day, but terrible attire for a lifetime."

Some people view retirement as a solution to their unhappiness at work. They are running away from something instead of to something. That's why it is essential to develop a vision of retirement and the rest of your life before you retire. Think ahead and develop interests that span the different seasons. Retirement can be very easy in beautiful weather, but very boring on dreary winter days.

Letting Go

The perks and fringe benefits, especially the use of company vehicles and health insurance, make it hard to let go. A solid retirement analysis about the adequacy of your retirement capital— no matter what financial curves come your way— can give you the

10 QUESTIONS TO ASK ABOUT YOUR RETIREMENT

1. Why do I want to retire?
2. What do I really like/hate about my job? Can I structure it so that I do more of the "likes" and less of the "dislikes"?
3. What is my vision of retirement?
4. Does my vision match that of my spouse?
5. Can we stand to be around each other 24 hours a day?
6. Does my vision include working or volunteering part-time?
7. Am I ready to let go of my current identity and start creating a new one?
8. What would be a perfect day during each of the three phases of retirement?
9. Between now and when I retire, what is the most significant thing that I would like to accomplish in my current position or career?
10. After I retire, what is the most significant thing I would like to accomplish before I die?

confidence to let go sooner.

Another part of letting go is putting closure on career accomplishments. If you are still in a "notch on the belt" mode of growth and achievement, you may not be ready to retire. Work can provide important mental stimulation and a social outlet with a network of friends, colleagues and customers. You need to develop an alternate network of friends and a way to make new ones in retirement.

Spousal Issues

While it may seem fine at first glance, retired couples are together more. This can provide opportunities for conflict. You married your spouse "for better or worse" but probably not for lunch every day. Are your visions of retirement the same? Are

your interests at least compatible? When we ask our pre-retiree clients about their vision of a good day in retirement, we get anything from blank stares all the way to enthusiastic plans.

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"Ron circa 1984.
Where did the time
(and hair) go?"

Ron Celebrates His 25th Year As Advisor

This month marks Ron's 25th anniversary as a financial planner. As both Ron and the late Jerry Garcia would say, "What a long strange trip it's been!" When people say to Ron "Wow, 25 years is a long time in one job," he replies that it's really been at least four or five careers because of the way the technology, client needs, and financial services industry have changed over that time, especially technology.

Ron is a pioneer. In 1984 he was among the first in Oregon to get his Certified Financial Planner™ credential and among the first in the nation to be admitted to the former Registry of Financial Planning Practitioners. He was a founding board member of the Oregon Institute of Certified Financial Planners and later became president in 1987. He was one of the first

financial planners in the Willamette Valley to own a computer (an Osborne!) and a noisy printer, which cost \$2,500, and one of the first financial planners in the nation to have his own web site.

Besides technology, what does Ron see as the biggest difference between now and then? Information. He notes that *Money Magazine* did not exist. There were no financial news channels or the Internet. Back then the challenge for planners and clients was obtaining information. Now the challenge is sorting through too much of it.

"Things were a lot different in 1981, and I wouldn't want to go back," reminisces Ron. "Although it was exciting at the time, I don't miss the 70-hour weeks and the transaction nature of the business. These are the good old days, and sometimes it's hard to believe I get paid to do what I love to do. I've been blessed with a very supportive wife, a great team, colleagues, mentors, and the privilege of working with so many wonderful clients over the years."

Are Your Annuities Structured Properly?

Last May, we discussed tax-deferred and immediate annuities in two parts. But we didn't have enough space to discuss the most important aspect of all—what can go right or wrong, depending upon the type of annuity you have and how you have it structured. To put this new article into perspective, you may want to review the previous ones by calling our office for a copy or going to our website at www.planningvisionprocess.com/new/kelemen/.

As a brief review, money in a tax-deferred annuity grows tax-deferred until 1) you are ready to take withdrawals from it, 2) annuitize it (which means the company will pay the annuitant an income for life or for a certain number of years), or 3) die. Most variable annuities offer an enhanced death benefit equal to the greater of your premium payments, the account value, or in some cases, your purchase price plus a stated percentage per year.

How you structure the annuity makes a big difference on when death benefits are paid, to whom they are paid, and who pays the taxes and potential 10% early withdrawal penalty. It also makes a huge difference in whether or not the beneficiary can stretch the death proceeds over his or her life expectancy, which can be a very powerful retirement planning tool. To understand this you need to know the parties involved, who pays the tax bill, and whether your contract is owner-driven or annuitant driven.

THE FOUR PARTIES INVOLVED

- 1) The **owner** has control over the other three parties, and special tax considerations come into play upon the death of the owner.
- 2) The **annuitant** is the person the company uses to determine a future lifetime income payment based on the life expectancy of that person. The death of an annuitant could also trigger death benefits in an annuitant-driven contract.
- 3) The **beneficiary** is the party that receives the value of the tax-deferred annuity if the owner (and in some cases the annuitant) dies.
- 4) The **insurance company** is the issuer of the contract and the party responsible for income and death benefit payments.

paid out on the death of the owner. So, if you own an owner-driven annuity and die, *all* benefits will be paid out to the beneficiary. If you owned an annuitant-driven contract, only the cash value of the contract would be paid, which could be considerably less than the guaranteed benefits.

In an annuitant-driven policy, all benefits are paid upon the annuitant's death, regardless of whether or not the owner dies. This can cause big tax problems and lost opportunities if the owner and annuitant are two different people.

Beneficiary's Options

Normally, the beneficiary must take all the proceeds from the contract and pay taxes on the gain within five years. However, if the proceeds were the result of the owner's death, the beneficiary can stretch the payments out over his or her life expectancy, similar to a "stretch IRA." And if the beneficiary were the owner's spouse, he or she could also have the option of assuming the contract as his or her own, changing beneficiaries, and continuing the tax deferral. But if you owned an annuitant-driven contract and the annuitant died, you—as the owner—would be responsible for the income taxes. And if the beneficiary were under age 59 1/2, you would also be responsible for a 10% early withdrawal tax penalty on the gain. Not a pretty situation!

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The Team Advantage

Ron Kelemen and Mary Way are independent Certified Financial Planner™ certificants. Together with Alex Sheppard they jointly serve their clients as a team with over 35 years of combined experience. Their fee-based practice focuses on wealth planning and management for professionals, business owners, and retirees. Together, they have developed *The Planning Vision Process*® and several other unique processes. They are advisory associates of The H Group, Inc., one of the largest independent fee-based registered investment advisory firms in the Northwest with 18 professionals and over \$800 million under active management. They are also registered with Financial Network Investment Corporation, (unaffiliated with the H Group, Inc.) a national broker-dealer with offices throughout the United States, Member SIPC.

About Ron Kelemen, CFP®

In practice since 1981, Ron Kelemen, CFP® is a contributing author of three financial planning reference books. His latest one, *Living and Learning—Achieve Retirement and Education Security* was just published by Quantum Press in July. He is Past President of the Willamette Valley Estate Planning Council, active in mentoring and in several local charities, and is frequently quoted in the national press.

About Mary Way, CPA, CFP®

Mary Way, CPA, CFP®, is a professional team member on Ron's team for 11 years. She is also a non-practicing CPA with 16 years experience in banking, business, and finance. She is active in Salem Rotary, the Financial Planning Section of the Oregon Society of CPAs, The Oregon Financial Planning Association, and The Willamette Valley Estate Planning Council.

About Alex Sheppard, MBA

Alex Sheppard, MBA joined the practice in March 2005, and is nearing the completion of his CFP® certification. He has a variety of experience in financial services, including four years as an analyst with a major mutual fund company.

The opinions expressed in this newsletter are those of Ron Kelemen, CFP®, Mary Way, CPA, CFP®, and Alex Sheppard, MBA. They do not necessarily reflect those of The H Group, Inc. or Financial Network. They are general comments that may not be appropriate for every individual. They should not be construed as legal or tax advice. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. All economic information is historical and not indicative of future results.

Team Update

January is the month for continuing education conferences, and then tax season kicks in, so we stay pretty busy until April. We are nearing the completion of exciting plans to change our business model, which we will announce in the next newsletter.

Lani got a 10¼ lb. grandson in January, courtesy of daughter Holly in Maryland. A few weeks later, eldest daughter Heather delivered a granddaughter here in Salem. It was a home delivery and Lani got to help the midwife when it came time to “catch”!

Debbie has never been busier processing paperwork for stretch IRAs, new accounts, and cleaning up old account records. She and Bob are saving vacation time for later in the year.

Alex celebrated his one-year anniversary with us by passing his CFP exam on retirement planning. Only one more to go before his final exam in July. The big news is that he became engaged New Year’s Day in New York. He and fiancée Virginia will formally tie the knot in Caracas, Venezuela next January, followed by a civil ceremony in Oregon. Meanwhile, one of his major goals is to learn to salsa dance so that he can really enjoy the reception.

Mary attended the Portland Estate Planning Council’s all day conference and a two-day financial planning conference in Vancouver sponsored by the Financial Planning Association. She is also very involved with the Investment Policy Committee of The H Group, Inc. She and husband Steve have been spending a lot of time with Steve’s father at the Alterra Care Facility, and they made their annual “Perfect Storm” four-day trip to Newport with friends.

Ron also attended the same conferences as Mary, plus his quarterly Strategic Coach meeting in Chicago. Much of his free time was spent preparing for a technical presentation on annuity structures before the Willamette Valley Estate Planning Council. (See a summary on page 3.) Ron was quoted extensively in the December 12 Encore Section of the *Wall Street Journal* in an article entitled, “10 Questions To Ask Before You Open That Nest Egg.” Due to back problems and his workload he got a very late start on snowboarding, but he’s optimistic about getting a few more days on the slopes before May.

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Creating the Retirement Vision

Retirement involves three phases: 1) Active (during the early years with health and energy), 2) Passive (during the middle years with declining mobility and energy) and 3) Final (the last part with failing health and no mobility). The questions in the box will help provide you insight for all three phases.

Retirement planning is more than just numbers and pure financial planning. Yes, you need enough money, and we can help you accumulate wealth and determine “how much is enough” under different scenarios. More importantly, retirement planning is all about creating a vision for the rest of your life. We welcome the opportunity to help you with this exciting process.



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The Kelemen-Way Financial Perspective

Ron Kelemen, CFP®
Mary Way, CFP®, CPA

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U.S. POSTAGE
PAID
SALEM, OR
PERMIT NO. 106

P.O. Box 3758
Salem, OR 97302-0758

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Trusts

The more we research this, the more we believe that you should not have an annuity contract owned by a trust, and payable to a trust or another party. The opportunities for stretch-out are lost, and spousal continuation may not be possible. Furthermore, the law deems the annuitant to be the owner of any trust, even if you were the original owner of the contract before transferring it into a trust. The owner in a living trust still gets the tax deferral, but no irrevocable trust can enjoy the tax deferral permitted “natural persons.”

Planning Pointers

This article is a very brief overview of an hour-long presentation Ron made to the Willamette Valley Estate Planning Council in February, and even that only scratched the surface. So, if we could leave you any pointers they would be:

1. Avoid naming different individuals as owner and annuitant, especially in an annuitant-driven contract. It’s best to have the annuitant and owner the same in most cases.
2. Avoid naming a trust as an owner unless there is a very good reason for doing so and you are sure of all of the results of the designation.
3. Avoid naming a trust as a beneficiary for the same reasons. Individuals are better because of the stretch option.
4. It’s generally better to have the spouse as a beneficiary for the continuation option.
5. For a husband and wife’s Net Income Charitable Remainder Unit Trusts with deferred annuities, it’s best to have two or more contracts with different annuitants to avoid flushing out all the accrued income on the first death. Alternatively, select from a handful of contracts that only pay death proceeds on the death of the contingent annuitant.
6. Above all, check your contract. Know who you have listed as annuitant, owner, and beneficiary, and whether your contract is owner or annuitant-driven. If you would like some help in that regard, we would be happy to assist you.