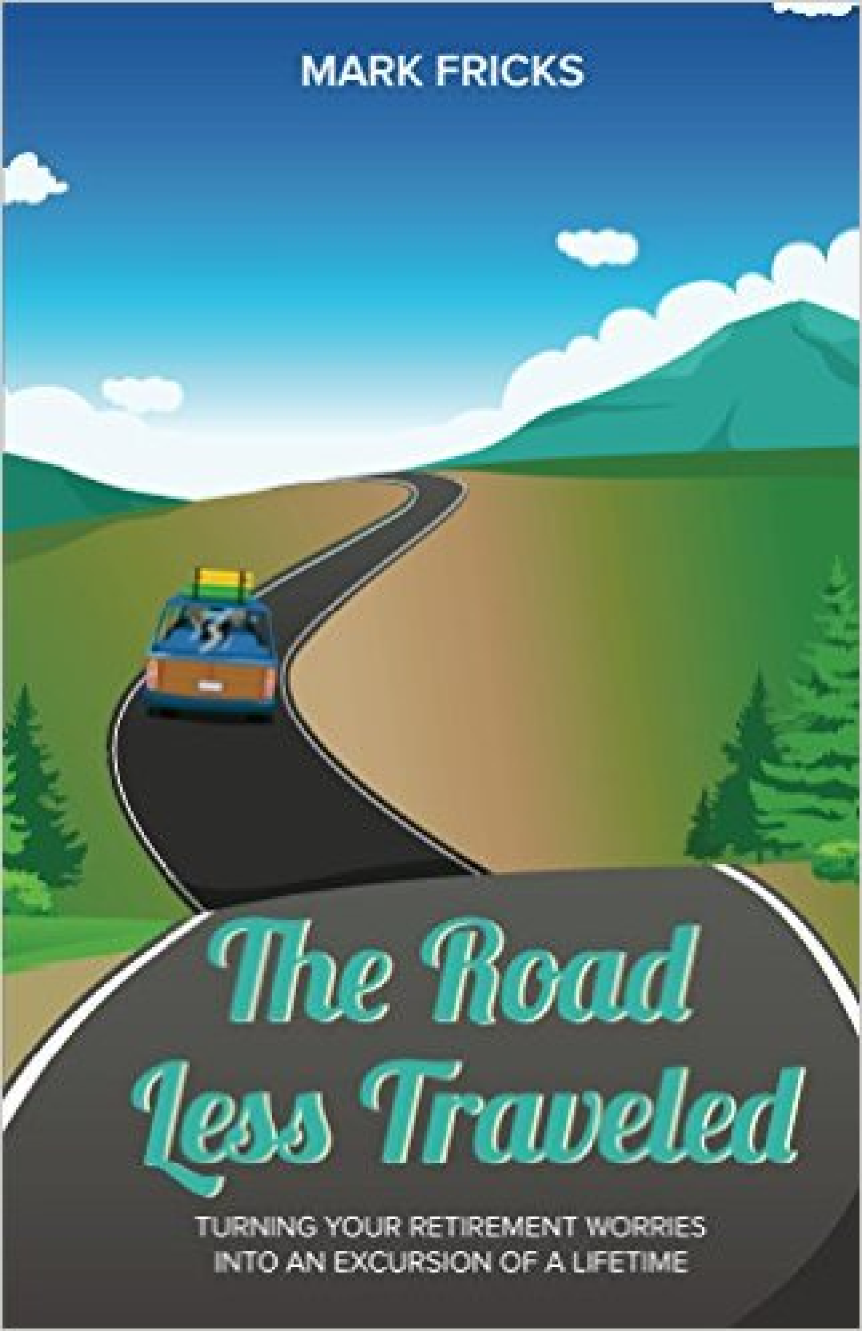

MARK FRICKS

The Road Less Traveled

TURNING YOUR RETIREMENT WORRIES INTO AN EXCURSION OF A LIFETIME

The Road Less Traveled

TURNING YOUR RETIREMENT WORRIES
INTO AN EXCURSION OF A LIFETIME

Mark Fricks

This document discusses general concepts for retirement planning, and is not intended to provide tax or legal advice. Individuals are urged to consult with their tax and legal professionals regarding these issues. This handbook should ensure that clients understand a) that annuities and some of their features have costs associated with them; b) that income received from annuities is taxable; and c) that annuities used to fund IRAs do not afford any additional measure of tax deferral for the IRA owner.

Printed in the United States of America

First Printing, 2014

Gradient Positioning Systems, LLC
4105 Lexington Avenue North, Suite 110
Arden Hills, MN 55126 (877) 901-0894

Contributors: Nick Stovall, Nate Lucius, Mike Binger and Gradient Positioning Systems, LLC.

Acknowledgements

To my wife, Karen:
who never gave up on me (even though perhaps you should have).

To my three children, Evan, Alyse and Anna:
for your unconditional love.

To my friends:
for your ability to laugh at my jokes as if they are funny.

To my clients:
for trusting me and inspiring me to continue the good fight.

Table of Contents

Introduction

My aha moment came in the late fall of 2008 when I was sitting across from a dear old lady in her late 70s whom we'll call Irene. Now Irene was a widow living off the fixed income of her retirement nest egg, and she came to see me about the loss her account had just sustained. Many retirees lost a great deal of money after the stock market downturn of 2008, and I was telling Irene that actually, we had done a pretty good job for her. Based on the way the firm I was working for at the time operated, I launched into my explanation about how most people lost on average of 30 percent, and Irene only lost 17 percent, so really, she came out ahead of most people and should feel pretty good. And as I was explaining this to her, I saw the look on her face and it hit me: she just lost $90,000 of her hard-earned money and here I was telling her that she should feel good. Ninety-thousand dollars at the age of 70 that she would never be able to get back again because Irene's working days were over. She sat across from me, this little old *lady, and I realized, we're missing something here. We should be able to do better than this.*

I went back to the drawing board after that day, researching, reading, attending conferences and interviewing other advisors. I had been following all the rules but what I realized was that the rules had something missing. Over the course of the next two years, I developed my own firm—MasterPlan Retirement Consultants—and protecting assets and creating income for pre- and post-retirees became my number one goal.

Irene was right to be worried on the day she came to talk to me. She passed away at the age of 82 without a penny to her name. Part of this was because her money had been left in buy and hold stock market investments; the other part was due to health care expenses. Irene's daughter, Katie, retired this year in her early 60s and she is now one of my biggest advocates. She has seen both sides of the coin—what happens when you don't protect your assets, and what happens when you do. Katie is enjoying a very different retirement than the one had by her mother.

NOT YOUR FATHER'S STOCK MARKET

In the 1950s, the common man or woman down the street wasn't investing in the stock market. In the early 1980s not long after Congress created the Individual Retirement Account (IRA), followed soon thereafter by the 401(k), I walked into my first big corporate job. I was filling out the paperwork, the woman from the Human Resource department said to me, "You qualify for a 401(k) retirement account."

I said, "Great. What's that?"

They told me I could start putting some money into the stock market. I had no idea which stocks to choose. "Just pick some," they told me. "Pick the ones that did the best last year." So I did that, and I came to learn that was a bit like driving with a rear view mirror only. But still, back then, everybody did okay. In the 1990s, we were zooming around in the stock market and everything was hunky-dory until the market shifted and we took a few big hits. That changed everybody's lives. Nobody saw the market downturn of 2008 coming and people are still talking about it today, wondering what the heck happened? That really woke a lot of people up to the realization that the stock market today is not the stock market of yesteryears.

As a nation, we have gotten pretty callous to the idea of risk. Going backwards in time again, if you take a look at Vegas in the 1950s and 1960s, you'd see it was filled with gangsters and mobsters and what people did there was called gambling. Today, people take their families to Vegas and we don't call it gambling, we call it gaming. In the same way that Vegas is a different place than it used to be, so, too, is the stock market. Things in the marketplace have gotten a lot more volatile because we have become a global economy. You can have the best money manager in the world, but if a bomb goes off in Sri Lanka or if China has an economic problem, it definitely affects our economy in ways that it never did 20 years ago.

The bottom line here is that it's impossible these days to predict what the market will do. You can't manage returns. But you CAN manage risk.

MOUNTAIN CLIMBING AND YOUR RETIREMENT YEARS

Sir Edmund Hilary is crowned with the achievement of being the first climber to reach the peak of Mt. Everest. What's significant, however, is that, based on current research, he may not have been the first person to reach the top of Everest. He was the first person *to make it all the way up and then back down again* still alive and in one piece. Thirty years earlier, a man by the name of Mallory hired his friend, Irvin, to help him get to the top of Mt. Everest.

Mallory was credited as being one of the most experienced climbers in the world at the time and his friend Irvin was also a good climber in excellent physical condition. Together they did manage to top the highest peak in the world, but they never made it back down. Why? Because as with so many things in life, *getting down can be, and most often is, the most difficult part of the journey.*

Retirement is like reaching the summit of a great mountain. You put a great deal of time, effort and planning into reaching the pinnacle, but not as much time, effort and planning into making the trip back down. This sheds light on how people need to make an adjustment to their assets. The same strategies, tools and philosophies used to get UP the mountain are completely different as you head DOWN. You're tired, for one thing, and your health isn't as good. Your equipment is worn out, you might have lost a few items, and the food you have with you has to last all the way until you get to base camp. There is no longer the reward of a stunning summit—you're just trying to stay alive. You've got to switch gears and enter into a new and different phase.

Going up the mountain of life is like the accumulation phase. Your focus is on how much money you can put away and how much your employer can match. Every year you adjust and try to save a bit more or get a higher return. When you finally get to the top, you are at the peak of your earning potential, and now you've got to go back down the mountain schlepping all your stuff. You have to carry the weight of inflation, taxes and the fear of outliving your money, just to name a few. Going back down the mountain you enter into a new phase, the "de-accumulation" phase. Your focus now should be on preserving what assets you have. The health, safety and enjoyment of your retirement years depend on it.

WHAT DOES YOUR RETIREMENT LOOK LIKE?

At MasterPlan Retirement Consultants, we spend a lot of time talking about your retirement roadmap because virtually no one who comes to see us has a plan for getting back down the mountain. You might have pieces—investments products you bought, contributions you made together with a wish list. But there's no plan.

People often confuse investments products with plans. They think their 401(k) is a retirement plan when in reality, it is only a product. A 401(k) and an IRA can be compared to the materials you need to build a car. They are like the wheels or windows or maybe the steering wheel, but you can't make it very far down the road with car parts alone. You've got to put all those components together into a cohesive whole, so all the parts work together to help you get to where you want to go.

I think of a retirement plan as your roadmap because it contains not just the directions, but all the cool things and places you want to do and see along the way. It plans for visits to see your family or a destination like The Giant Ball of String, and takes care of basic necessities like meals and lodging. This can be compared to your retirement income because we all know that travel is no fun when you're uncomfortable, tired, and hungry. A retirement plan needs to start with your basic, most essential needs but it must also take into consideration your preferences and health concerns. A good plan also accounts for risk, or the things that can go wrong. Your roadmap for retirement must include the following to ensure the safety and longevity of your trip:

- ***Where do you want to go?*** Your goals, desires and purpose during your retirement years.
- ***Risk and magic underwear***: What kinds of investments should you pack? Is the stock market right for you during retirement? Chapter two includes the rollicking story of Chuck and the magic underwear.

- ***Junk Food While Driving***: It might come in pretty wrappers, but not all investments are designed to do the same thing. Some are good for you and some aren't so good during retirement. You want a steady supply of good, reliable fuel. Chapter three is about The Colors of Money.
- ***How to keep fuel in the tank***: A chapter about your basic needs—income planning.
- ***Getting as much as you can***: Social Security maximization and your benefit.
- ***What if I need more gas?*** How to write your own pension plan to fill the income gap.
- ***Taking the long way***: Streamlining your tax liabilities is like making sure you don't waste gas. You make more money by saving on taxes than you do by earning more money. Chapter 10 is about tax planning.
- ***Who do you want to remember?*** Creating a lasting legacy is about more than just filling out the correct paperwork—it requires collaboration between your intentions and the legal documents in order to avoid probate, disinheritance and tax penalties.
- ***Don't be afraid to ask for directions***: Getting advice from a knowledgeable financial professional can make all the difference between a trip that is fun and enjoyable and one that ends in disaster. Enjoy the peace of mind that comes from working with a professional who has your best interests at heart.

The information you've read in this introduction may have already changed your view on retirement. The information in the ensuing chapters can change your approach to life in retirement by giving you confidence, knowledge, and most importantly, control over your retirement.

This book will address your entire financial situation from four perspectives:

- Income
- Asset accumulation
- Taxes
- Legacy

YOUR RETIREMENT SHERPA

Going back to our mountain climbing analogy, what did Sir Edmund Hillary have that Mallory didn't have? The answer has been long speculated by climbers and non-climbers alike, but one of the most noted differences is the fact that Hillary didn't take a friend climbing with him. Hillary hired a Sherpa by the name of Tenzing Norgay. Sherpas are native to the Himalayan mountain region, naturally acclimated to the higher altitudes and able to climb with heavy gear on their back. Because of their knowledge, skill and familiarity with severe weather patterns, they are hired to guide climbers safely up and down the mountain. A Sherpa, in short, is a professional.

At MasterPlan Retirement Consultants we take the job of guiding your retirement to heart. We don't just want you to get back down the mountain; we want you to enjoy the journey along the way. You've worked and saved your entire life so that the enjoyment of these de-accumulation years would come easy. Let us assist you with the burden of asset allocation, tax liabilities and the logistics of leaving behind a legacy. *We'll be your Sherpa.*

We are a full-service boutique firm that specializes in handling all three aspects of retirement risk including money management, tax strategies and estate planning. Our estate attorney, tax attorney, mortgage people and Medicare/Medicaid specialists are there to make sure that all the areas that can cause risk to your retirement years are planned for and addressed so that you can rest easy with peace of mind. As an investment advisor with over 26 years of experiences in financial service, we never take on more clients than we can comfortably handle. We keep our firm relatively small to make sure that we have your back covered, and we make sure that no one ever gets lost coming back down the mountain.

Mark Fricks, Investment Advisor Representative, Registered Financial Consultant and Chartered Retirement Planning Counselor, founder of MasterPlan Retirement Consultants, DBA of Fricks and Associates, Inc., and MasterPlan Wealth Advisors, a Registered Investment Advisor firm.

1
Destination Retirement

Are we there yet?

Jack and Beverly are age 67 and 65 respectively and they live in the red clay state of Georgia. They have decided they would like to go to California and so they walk out of their house, get into their car and head west. George has his wallet and Beverly has her purse, so they have cash and access to money. But other than that, they don't bring a map or supplies and they don't even pack a suitcase. They just get into the car and point west.

They hope that if they just keep driving, eventually they'll get to California. Their thinking is that as long as they head west they should eventually get there. Right?

While Jack and Beverly might sound like a couple of eighteen year-old renegades, a lot of people approach retirement the exact same way. They take their money, get into the car and drive. They ***hope*** they have enough money and they ***hope*** they will get to where they want to go. But most people don't really have a plan.

The key word in that sentiment and the word that can make retirement feel like a looming problem instead of a rewarding life stage, is ***hope***. You hope you'll have enough money. You hope nothing will go wrong. You hope you'll make it okay. Only with retirement, the stakes are much higher than just a fun trip to a new place. Your money has to last longer than the time it takes to get to California. Your assets, the wealth you have worked so hard to accumulate during all your working years, have to last the rest of your life. Retirement isn't just a lark. *It's an excursion of a lifetime.*

Leaving your retirement up to chance is unadvisable by nearly any standard, yet millions of people find themselves *hoping* instead of planning for a happy ending. With information, tools and professional guidance, creating a successful retirement plan can put you in the driver's seat of your financial management. It's often been said that people spend more time planning for their vacations then they do for their retirement years, so we're going to take a light-hearted approach. We're going to look at your retirement as the excursion of a lifetime, and we're going to plan for it just as you would any other exciting and wonderful vacation.

WHAT TO THINK ABOUT BEFORE THE TRIP

When you plan for a trip, one of the first things you do is figure out what you want to do and see, both along the way and when you get there. The same thing applies to your retirement years. We often get so caught up in the worry of money, we forget that the reason we saved in the first place is so that we can enjoy ourselves. What do you want to do during retirement? What are your dreams, goals and issues? Who do you want to see? And where have you been planning to visit?

The foundation of a retirement plan starts with what you want to do and how you want to do it. We talk about hobbies, activities and events. Do you like to take the back roads? Are you in a hurry to get there? Are you value-oriented and only looking for the cheap hotels? Or do you own an RV? We talk about who you are and what you want to do. We also ask about the people who are important to you. We ask about family because the people who are important to you have to be included in your plan.

Think of it this way: when you go on a trip and rent a car, do you show up at the rental agency and take whatever shiny thing on wheels is available? A three-wheeled scooter? A two-door hatchback? A minivan with dog hair on the seats and a broken air conditioner?

Or do you think about your trip and ask yourself a few questions such as: how many people will be travelling in the car? How many hours will we be riding together each day? How many miles will we be going? What kind of terrain will we encounter? Getting the right vehicle doesn't cost any more than just showing up and taking whatever is available on the lot. Getting the right vehicle also means everyone going on the trip will be taken care of and a lot more comfortable. But the biggest upside is that you will all have a greater chance of getting exactly where you want to go.

Your retirement vehicle can be compared to the organization and structuring of your assets. We want your money to be able to provide for the people who are most important to you. When we talk about your retirement plan we ask you questions such as:

- Do you want to help your grandkids pay for college?
- Are you taking care of an elder parent?
- Do you have any family nearby?

Your roadmap to retirement starts with a conversation about you and your life. These questions may sound personal, but money is personal. Money represents more than the paper it's printed on. It is the embodiment of your time, your talents, and your commitments. It buys the food you eat, the house you sleep in, the car you drive, and the clothes you wear. It also helps provide you with the lifestyle you want to live once you retire.

THE DIFFERENCE BETWEEN A GOAL AND A DREAM

When you are eighteen and young with decades of living ahead of you, there is nothing wrong with getting in a car and just driving away. Maybe you've done this yourself: gone on a trip with only a wallet and a dream. There's nothing wrong with that, if you have the time. For most people entering into retirement, they don't have the time to drive for days on end in the wrong direction. Doing that jeopardizes the entire trip because they might run out of gas, run out money, or worse, run out of time. When you enter into retirement you are no longer eighteen and that's why a plan becomes so important.

A plan is different from a dream. A dream gives you direction, vision and a warm fuzzy feeling. But a dream alone doesn't get things done. When you take the time to plan, you recast that dream as a goal. A goal is a specific and written plan with directions that tell you how to get there.

> » *Bob and Vivian came into the office to talk about their retirement assets. But Vivian wasn't talking to Bob and Bob wasn't talking to Vivian. They were both upset, each for his/her own reasons. Vivian was tired of Bob managing her life like he used to manage his business. Bob was tired of having to ask permission before he went golfing and he didn't want to wash anymore dishes. Bob and Vivian were retired, but they didn't know what to do with their new-found time. Most importantly, they didn't know what to do together.*

RECLAMATION DAY: RETIRE WITH A PURPOSE

The word *retirement* has many negative connotations and quite frankly is a terrible word for today's generation of Boomers. They're not fading away, withdrawing from society, or sitting in rocking chairs whittling on the porch. At 65, they are vibrant, healthy individuals who still have a lot left to give. Given the average life expectancy these days, most people can count on living another 20 years past the age of 65.* Even estimating on the low side, ten years is a good chunk of time. What do you want to do with those years? What is your passion? What do you want these years to be all about?

Talking about *the purpose* of your retirement years is another (surprising!) conversation that needs to happen before we get down to money matters. This is especially important for married couples who in many cases are spending greater amounts of time together than they have spent in a long time. Without the distraction of work, kids and career, what will you do with your time?

Chances are you gave up a lot of the things you really enjoyed doing during your working years. Maybe it's time to start adding those things back into your life. Reclamation is a restoration of usefulness and productivity. What do you want to do? Do you have a garage in the backyard where you want to work on cars or radios? Do you want to start a business or build an art studio? Join a book club or a bowling league? Now is the time to ask yourself, what's next? What thrills you? What do you want to do? What are your hobbies and skills? What do you care about? Who do you want to help? Maybe it's traveling with a purpose and volunteering in other countries; maybe it's reading to children at your grandson's elementary school. Whatever it is, chances are you have talents just waiting to be put to use. Your retirement

---

**http://www.ncbi.nlm.nih.gov/books/NBK62373/*

plan should include the methods and strategies to reclaim those talents and put those activities and interests back into your life.

WHERE YOU ARE NOW

You have spent a lifetime earning, spending, and hopefully, accumulating money. When the time comes for retirement, you want your money to provide you with a comfortable lifestyle and stable income after your working days are done. You might also have other desires, such as traveling, purchasing property, or moving to be closer to your family (or farther away.) You may also want your assets to provide for your loved ones after you are gone.

The truth is that it takes more than just money to fulfill those needs and desires. It takes a comprehensive plan that considers all the working parts of your complicated or not-so-complicated life. That's why we start with questions about you, who you are, and the people close to you. All of this directly influences the choices we make when organizing and planning for money management strategies. As you start thinking about retirement and planning for all the things you want to do, you'll find a reoccurring theme often pops up: *the fear of running out of money*.

While you may have built up a 401(k), an IRA, and Social Security benefits, do you know what your financial picture really looks like? Do you know how much money you need to pay the everyday bills? Do you know how many guaranteed sources of income you'll have during your retirement years?

After identifying your goal or destination, your next step is to figure out where you are now with regards to your finances. How can you plan a route if you don't know your starting point? As they say in Georgia, *that dog won't hunt.* If you plan a route from a different location on the map other than where you are currently located, your future will be full of wrong turns.

It's time to look at all your investments: annuities, life insurance plans and 401(k)s; IRAs, money market accounts and any savings. We'll also look at past tax returns to get an idea of income and tax liability. We'll see what needs to be fixed, tweaked or changed in order to keep your investments in line with your goals.

Often times we find investment vehicles that overlap and cost money you don't need to be spending. For example, you might be paying for an income rider without ever turning on the income portion of the product. This is a lot like driving around in an RV and still paying for a Bed and Breakfast suite at the end of the day. You either want to sell the RV or stop paying for the Bed and Breakfast. At the very least, you want to know about the investments products you own to identify what they are actually doing for you and what you would like them to do for you. Structuring assets to create an income-generating retirement requires a different approach than earning income via the workforce. Add the complexities of taxes, required minimum distributions (RMDs) from IRAs and legacy planning, and you can begin to see why happy endings require more than hope. They need a focused and well-executed plan.

THE IMPORTANCE OF A PLANFUL APPROACH

The way you approach your retirement impacts your income, the taxes your assets are subject to, your financial stability in the future, and your legacy. It is a truism among financial professionals that ***one hour of organizing your assets can be worth more than an entire lifetime of working and saving*** when it comes to retirement. Why is this so?

The fact of the matter is that after working and saving for a lifetime, entering retirement changes all of the rules you have known and followed for your entire career. Instead of an earning and saving paradigm, you are moving into an income and asset leveraging paradigm where you need to use the money you have earned and saved to generate income and preserve your assets for you. Making sure your assets last for your lifetime will depend on how you decide to invest them, and in what order you will spend them

Advice about what to do with money has been around as long as money has existed. Hindsight allows us to see which advice was good and which advice didn't cut the mustard. Some sources of advice have been around for a very long time. While there are some basic investment concepts that have stood the test of time, most strategies that work adapt to changing conditions in the market, in the economy and the world, as well as changes in your personal circumstances.

The reality is that investment strategies and savings plans that worked in the past have encountered challenging new circumstances that have turned them on their heads. The market downturn in the early 2000's, along with the "Great Recession" 2007-2008 highlighted how old investment ideas were not only ineffective but incredibly destructive to the retirement plans of millions of Americans. The dawn of an entirely restructured health care system brings with it new options and challenges that will undoubtedly change the way insurance companies provide investment products and services.

Perhaps the most important lessons investors learned from the past decade is that not understanding where your money is invested (and the potential risks of those investments) can work against you, your plans for retirement and your legacy. Saving and investing money isn't enough to truly get the most out of it. You must have a planful approach to managing your assets.

Essentially, managing your money and your investments is an ongoing process that requires customization and adaptation to a changing world. And make no mistake; the world is always changing. What worked for your parents or even your parents' parents was probably good advice back then. People in retirement or approaching retirement today need new ideas and professional guidance.

A MAP IS NOT A PLAN

Before we continue on our journey, it's important to take a minute and address the flaw in our analogy. A map can't plan your retirement any more than a pill can make you healthy. Your retirement roadmap is like a prescription you follow and as such it must be constantly updated. An excursion of this length isn't something you plan for once and then forget about. A plan of this magnitude has to be adjusted, tweaked and looked at often because as you go along, the things, people and circumstances of your life change. Figuring out how to get from point A to point B is just one part of the process. There are many more complications.

A map doesn't tell you what to do if you get tired, lost or confused. It doesn't tell you what to see, what to do or where to eat. It's what you need to get started on the trip, but what do you need to keep going? In other words, how do you make sure that the fuel in the tank is enough to last the whole way and what if the car breaks down? As this translates to your retirement concerns, you might ask, should I be worried about growing my assets? Is the stock market the right place for my money during retirement? Most people don't realize all the complications involved in retirement planning until they get ready to retire and they start looking at it. Our next chapter deals with the realities of stock market risk.

CHAPTER 1 RECAP //

- Just like planning for a vacation or a trip, your retirement plan needs to consider your goals and objectives, or it won't be a good plan for you. The answers to the question, *when should I retire*, will be different for everyone, based on your lifestyle and the people in it who are important to you.
- There is a difference between a retirement product such as a mutual fund or annuity and a retirement plan. As you move out of the working stage of your life, you are no longer earning income. A shift must be made from the accumulation of your money to the management of your money. Before you take off on your retirement trip, identify where you are now by taking the time to understand what you are invested in and what those investments are doing for you.
- The rules for retirement planning have changed. Investing the way your parents did will not pay off and the majority of investment ideas used by financial professionals in the 1990s aren't applicable to today's markets. That kind of investing will likely get you in trouble and compromise your retirement. Today, you need a better PLAN. Having a planful approach to retirement gives consideration to today's stock market and economy, and the individual concerns of you, the investor.