Life Income Management™

Creating income for life.

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ED SLOTT'S ELITE IRA ADVISOR GROUP™ **Melody is a Member of Ed Slott's Elite Advisor Group*

Financial Outlook

MAY 2022

Investing Before and During Retirement

There are two phases in the life cycle of a retirement portfolio: the time when you're contributing to it and the time when you're using it to cover your living expenses. During each phase, the basic challenge is deciding how to invest your nest egg, and for that there are three common approaches:

- **Going with your comfort level.** Most people have some idea as to what investments are appealing, either because of the associated rate of return or how much safety they seem to offer. Some people would never put their money anywhere but in an insured savings account or U.S. Treasury security. Others feel there's no better place than the stock market, commodities, real estate, or tax-free municipal bonds. Whichever it is, people tend to pile their retirement funds in one place — which can cause problems if there is a significant decrease in that investment.
- **Using a one-size-fits-all formula.** There are at least several of these formulas floating around. On the theory that the closer you get to retiring the more conservative you should become, one says you should subtract your age from 100, treat the result as a percentage, and put that portion of your portfolio in stocks and the rest in bonds. Another follows the same method, but suggests you subtract your age from 120. The appeal of this approach is that it's simple and unambiguous. The downside is that the results don't take into account the details of your circumstances (your income, your savings, how much your future lifestyle will cost), the state of the economy and inflation, or the cyclical nature of market returns.
- **Using a financial plan.** A plan includes all the details that the other two methods leave out. It's by far your best option for achieving your retirement goals since it takes your circumstances and the state of the economy into account. The plan should be split into before-retirement and during-retirement strategies.

Before You Retire

The key factor is to determine what rate of growth you need to achieve in your portfolio to retire with a nest egg capable of supporting you for the rest of your life once you no longer earn a paycheck. It's a balancing act between how much

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Should You Consider Incentive Trusts?

You're looking for an effective way to ensure your heirs do what you think is best for them, for the family, and for the world. Is an incentive trust the right vehicle to accomplish that?

An incentive trust is much like a traditional irrevocable trust, except that it sets specific conditions on trust distributions. Some people establish incentive trusts to make sure beneficiaries stay in the family business. Others want to encourage higher education or public service. Some want to discourage behavior — laziness, reckless spending, or drug use. Still others want to encourage beneficiaries to get married and raise a family.

Incentive Trusts Have Advantages and Disadvantages

If you think an incentive trust may be a useful part of your estate

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Investing

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you can afford to put aside every year, how much growth will maximize your nest egg, and how much risk you feel comfortable taking.

By analyzing these factors, a good financial plan produces a recommended asset allocation strategy that specifies how much of your portfolio should be invested in stocks, bonds, cash, commodities, and real estate. The mix you invest in aims at a target rate of return and risk level that both meets your goals and makes you comfortable with the year-to-year results.

In general, the younger you are, the more risk you can afford to take, since you will have many market and economic cycles to smooth out your returns. It's not unheard of for someone in his/her 30s or 40s to invest up to 70% or 80% of his/her assets in stocks. Conversely, younger people who are risk-averse may be able to take less risk and put more of their assets in bonds, as long as they have more modest retirement goals.

It's generally true that the closer you are to retiring, the more conservative your portfolio ought to be. But this doesn't suggest the precise proportions that you ought to put into each asset class, nor does it take into account the opportunities or challenges that current market conditions present. Those answers will come only when you get into the details of your current situation and your future goals.

After You Retire

Before you retire, your asset allocation strategy is driven largely by the goal of creating the largest possible retirement portfolio within the limits of your tolerance for risk. After you retire, the goal shifts to keeping your retirement portfolio large enough to continue generating the supplemental income you need for the rest of your life.

While this shift means your strategy aims for less growth and risk than in the accumulation stage, it's usually a mistake to revert to the most conservative strategy possible. That's because your portfolio gets eroded over time by:

- Inflation, which means the real value of your portfolio (as well as the buying power of the income it throws off) gets smaller every year.
- Taxes on income and capital gains in taxable accounts and withdrawals from non-Roth IRAs.
- Withdrawals that you make to support your lifestyle.

Because of this constant shrinkage, some portion of your portfolio needs to be invested in stocks, which is a riskier asset class but typically stays ahead of inflation, taxes, and reasonable rates of withdrawals.

Please call if you'd like to discuss your situation. ❍❍❍

Should You Stay or Should You Go?

Choosing a place to live is one of the most important retirement decisions you can make. You'll have to weigh financial, emotional, and lifestyle issues before you can decide. Below are some tips that may help you make your choice. You can start your retirement housing search by asking yourself these questions:

- Where do I really want to live?
- Where can I afford to live?
- If I'd like to relocate, how much will that cost?
- Will relocating allow me to save money on housing and other expenses?
- Can I save on taxes by moving to another area?
- If I'd like to move, what price can I expect to get for my house?
- Where do my friends and family live?

So, what if your answers to the above questions suggest that relocation is a good idea? It's hardly an unusual situation. Getting a fresh start in retirement is a dream for many. But depending on your current financial situation, it may not be realistic. Many still have hefty mortgage payments heading into retirement. Some people who want to relocate simply may not have the financial ability to do so.

If you are interested in moving, it pays to do your homework. Looking into housing in your ideal location is just the start. You'll also want to think about how much you can get from the sale of your current home (be realistic). Taxes are another issue. Some retirees can save money by moving from a high-tax state to one that offers tax breaks to retirees. Another aspect to consider? The cost of travel back to your original home if you still have family and friends living there.

If you're sure that relocating in retirement is the right choice for you, don't rush into a decision. Try a trial run of a month or two in your ideal destination to see how you really like living there. A place that's great to visit for a week might lose its luster after a month. In addition to obvious considerations like weather, make sure you think about amenities both fun and not so fun. Are there hospitals nearby? What about public transit in case you're eventually unable to drive? Will you be part of a ready-made retirement community or will you be on your own when it comes to making new social connections? Are the amenities you'd like to use affordable? Knowing the answers to these questions in advance can help you avoid making a costly financial mistake.

Thinking about relocating in retirement? Please call if you'd like to discuss this in more detail. ❍❍❍

Incentive Trusts

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plan, consider the advantages and disadvantages.

The advantages of incentive trusts include:

- ❍ If you write the conditions for disbursement properly, they provide objective criteria for when and how to make these disbursements.
- ❍ They encourage beneficiaries to behave in ways that are important to you.
- ❍ They allow you to condition disbursement on your beneficiary's age, so you can decide when he/she is old enough to responsibly manage the inheritance.
- ❍ They can help you accomplish goals through your beneficiaries, such as continuing the family business or pursuing philanthropic interests.

But there are also disadvantages:

- ❍ While incentive trusts allow you to specify conditions for distributions, they restrict the ability of trustees to make different decisions if new circumstances arise.
- ❍ Incentive trusts can cause resentment among beneficiaries, who may feel it is not your place to tell them how to live their lives.
- ❍ Encouraging goals you think are important may cause beneficiaries to neglect other good opportunities. For example, you may want a beneficiary to start a business, but she may be better suited to another career choice.
- ❍ Incentive trusts may be plagued by the law of unintended consequences. How can you foresee the future long after you've died? You may instruct the trust to pay out a stipend for your beneficiaries to go to school, but that can encourage them to become professional students.
- ❍ Because incentive trusts are often more complicated than traditional irrevocable trusts, they may be more expensive to establish and maintain.

What to Think About

There are a number of issues that could affect the design and implementation of an incentive trust. Consider these points carefully:

- ❍ **Goals** — What behaviors do you want to promote? Incentive trusts are often created to encourage beneficiaries to pursue higher education degrees. Discouraging reckless consumption and unproductive behavior are other common reasons behind incentive trusts. Think about what matters to you and your beneficiaries. What goals are fair and reasonable for you to expect your beneficiaries to achieve?
- ❍ **Coordination with your estate plan** — Incentive trusts are just one component of an estate plan. Decide whether you want to create a separate incentive trust or build incentive clauses into a trust designed for another purpose. Make sure the incentive trust doesn't conflict with or detract from other components of your estate plan.
- ❍ **Duration** — How long do you want the incentive trust to last? For grantors with substantial wealth, a trust may span many generations. Can you realistically set expectations for beneficiaries who aren't even born yet?
- ❍ **Beneficiaries** — Who will benefit from the monies disbursed from the incentive trust? Considerations here are similar to those for any kind of trust: who do you include and exclude?
- ❍ **Trustee designation** — The trustee of an incentive trust typically has a more difficult job than the trustee of a simple traditional trust, since he/she must decide when beneficiaries have met the conditions you specified. Make that job easier by writing conditions that are objective and easily measured.

How to Prepare an Incentive Trust

If you decide an incentive trust may be right for you, you should:

- ❍ Sit down with your beneficiaries and trustee to discuss your goals for the incentive trust. The likelihood that your beneficiaries will later resent the incentives is greater without this discussion.
- ❍ Build flexibility into the trust to accommodate changes in circumstances. This will mitigate unintended and undesirable consequences.
- ❍ Ensure that the conditions you want to include comply with state and federal laws.

If you don't want to establish an incentive trust, you can limit each beneficiary's inheritance to an amount that isn't likely to encourage reckless consumption and unproductive behavior. Another alternative, if your interest lies in philanthropy, is to establish a private foundation and name your beneficiaries as board members. That way, your money is still controlled by your beneficiaries, but it is put to charitable use.

Please call if you'd like to discuss incentive trusts in more detail. ❍❍❍

Financial Data

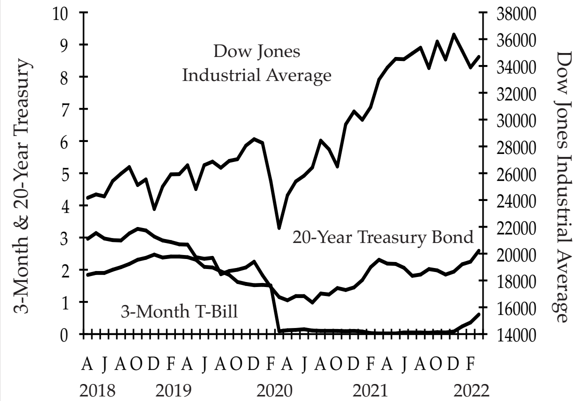
Indicator	Jan-22	Feb-22	Mar-22	Dec-21	Mar-21
	Month-end				
Prime rate	3.25	3.25	3.50	3.25	3.25
Money market rate	0.07	0.07	0.07	0.07	0.10
3-month T-bill yield	0.24	0.36	0.61	0.08	0.02
10-year T-bond yield	1.79	1.83	2.32	1.52	1.74
20-year T-bond yield	2.17	2.25	2.59	1.94	2.31
Dow Jones Corp.	2.85	3.31	3.72	2.48	2.42
30-year fixed mortgage	3.16	3.51	4.06	2.63	2.54
GDP (adj. annual rate)#	+6.70	+2.30	+6.90	+6.90	+6.30

Indicator	Jan-22	Feb-22	Mar-22	YTD	12 Mon.
	Month-end			% Change	
Dow Jones Industrials	35131.86	33892.60	34678.35	-4.6%	5.1%
Standard & Poor's 500	4515.55	4373.94	4530.41	-4.9%	14.0%
Nasdaq Composite	14239.88	13751.40	14220.52	-9.1%	7.4%
Gold	1795.25	1909.85	1942.15	7.6%	14.8%
Consumer price index@	278.80	281.15	283.72	2.1%	7.9%
Unemployment rate@	3.90	4.00	3.80	-9.5%	-38.7%

— 2nd, 3rd, 4th quarter @ — Dec, Jan, Feb Sources: *Barron's, Wall Street Journal*

4-Year Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield

April 2018 to March 2022



Past performance is not a guarantee of future results.

News and Announcements

Don't Forget Digital Assets

When preparing an estate plan, people often forget about their digital assets. But with so many managing their lives online, digital assets are an integral part of your estate plan.

There are a myriad of digital assets to think about as part of your plan, including:

- ❍ Computers, external hard drives, smart phones, cameras, flash drives, and other electronic devices.
- ❍ Online accounts such as bank accounts, investment accounts, utilities, mileage and reward accounts, and social media accounts.
- ❍ Any important documents that you have stored in electronic files, such as tax returns, insurance documents, wills, and trusts.

The first step is to conduct a thorough inventory of all of your digital assets. Make a list that includes the type of asset, the location of each asset, website addresses where applicable, usernames, and passwords. You should provide the written list to the person you are entrusting to take care of these assets or keep a copy with your will and clearly identify the person in charge of managing them.

Other things to consider for storage of these assets is an online vault and a password manager. The online vault allows you to store all of your important documents in one secure online account. The password manager stores all of your usernames and passwords for all of your online accounts. The person who is responsible for your digital assets only needs access to one password that will give him/her the information for all of your other accounts.

In your estate plan, you will want to provide clear instructions as to who is responsible for your digital assets and how you want them handled. You will want to select someone you trust, because you may have details that you want kept private. Make sure you indicate if you want accounts closed, documents deleted, and any accounts or documents to go to a certain person, especially if there is any associated monetary value. ❍❍❍

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