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# Ten Frequent Retirement Mistakes You Should Avoid

When your retirement finally arrives, you can take a deep breath and exhale. You made it! But that doesn't mean you may relax completely.

In fact, mistakes made in retirement can cause significant financial distress. Here are 10 common pitfalls to avoid:

Mistake 1. Going on a spending spree. It may be tempting to start spending freely, especially because you now have more time on your hands. But you don't want to burn through your savings in just a few years. It's still important to rely on a budget that helps you balance monthly income and expenses.

Mistake 2. Applying for Social Security right away. Most people are eligible to begin receiving Social Security benefits as early as age 62. Although that may be the best approach for some retirees, it's not recommended for everyone. You can ensure greater monthly benefits by waiting until full retirement age (FRA) to apply—age 66 for most Baby Boomers—or even longer. Starting your benefits at age 70 will give you the largest possible monthly benefit.

Mistake 3. Not taking income taxes into account. Even though you're retiring, taxes will continue to have an impact on your financial life in general and your investments in particular. You still can take advantage of investment losses to offset capital gains that otherwise would be taxed, while distributions from your employer-sponsored retirement plans and IRAs may add to your tax bill. If you have a Roth IRA, you may be able to take tax-free payouts—or pass them along to your heirs.

Mistake 4. Becoming too conservative in your investments. The traditional advice is to shift your portfolio to lower-risk investments during retirement. That makes sense as a general principle, but don't go too far. Consider your life expectancy and how long you will have to stretch the income from your savings. By avoiding investment risk you could increase another kind of risk—the risk of outliving your savings.

Mistake 5. Being handicapped by your biggest asset. It's often hard to give up the home in which you raised your children. However, at some point during retirement, it may become too expensive to live there. Even if you've paid off your mortgage, you'll still be responsible for real estate taxes, repairs, and utilities, which could add up to thousands of dollars a month. Selling to reclaim your equity and then buying a smaller place could free up your equity while reducing your costs.

Mistake 6. Being victimized by a scam. Con artists frequently prey on the elderly, and today's schemes are increasingly sophisticated, putting almost everyone at risk. Imposters may create phony websites that mirror ones from reputable financial institutions and

*(Continued on page 4)*

## *What Will Your Social Security Benefits Be?*

Until a few years ago, the Social Security Administration (SSA) mailed periodic estimates of retirement benefits to all workers. Not anymore. But you still can get a good idea of what your monthly benefit amount will be by using the SSA's Retirement Estimator at www.ssa.gov/retire/estimator.html.

Keep in mind that this is just an estimate based on your earnings history. It isn't written in stone. Also, Social Security rules may change in the future.

You can use the Retirement Estimator if you have enough Social Security credits to qualify for benefits and you're not (1) currently receiving benefits on your own Social Security record; or (2) waiting for a government decision about benefits or Medicare; or (3) age 62 or older and receiving benefits on another Social Security record; or (4) eligible for a pension based on work not covered by Social Security.

Note that your actual retirement benefits can differ from the estimate for several reasons:

- Your earnings may go up or down in the future.
- After benefits begin, they may be adjusted for cost-of-living increases.
- Estimated benefits are based on current law.
- Your benefit amount may be affected by military service, railroad employment, or pensions earned through work on which you did not pay Social Security tax.

Some other online estimators address those issues. But even if you don't get the estimate of your future benefits right to the penny, even a ballpark figure can help in your overall retirement planning.

*Robert J. Pyle, CFP, CFA*

# 4 Year-End Strategies For Investors

The end of the year is a great time to assess your current investments from both a tax, and a financial perspective. Depending on your situation, you might rely on four key strategies to improve your tax picture for 2016:

**1. Capital loss harvesting:** Capital losses can offset taxable capital gains, and if your losses for the year exceed your gains, you can use the excess to offset up to $3,000 of highly taxed ordinary income, such as the salary from your job. If you still have an excess loss, you can carry it over to use in future tax years.

This presents some tax planning opportunities at the end of the year. For instance, if you've already realized a short-term capital gain that will be taxed at ordinary income rates, you could sell a holding at a loss to offset all or part of that gain.

**2. Capital gain harvesting:** On the flip side, you might use an existing loss on a securities sale to absorb the potential tax from a capital gain. For example, if you've taken a loss, you might harvest a short-term capital gain that otherwise would be taxed at ordinary income rates.

If you have a long-term capital gain (from selling an investment you've held longer than a year), you benefit from a maximum tax rate of 15%, even if you're in the regular 25%, 28%, 33% or 35% bracket. Those in the top 39.6% bracket pay a maximum 20% rate on long-term capital gains. And investors in the two lowest brackets of 10% and 15% pay 0% on long-term gains.

**3. Wash sales:** Under the wash sale rule, you aren't allowed to deduct a capital loss on the sale of securities if you acquire substantially identical securities within 30 days of the sale. For instance, if you sell mutual fund shares at a loss and buy back shares of the same fund two weeks later, you can't claim the loss.

In this case, all you have to do is wait at least 31 days before buying comparable securities. Alternatively, if it makes financial sense, you could buy the new shares right away and wait at least 31 days before selling the original shares.

**4. NII tax:** You could owe an additional 3.8% surtax that's applied to the smaller of your net investment income (NII) or the amount by which your modified adjusted gross income (MAGI) exceeds $200,000 for single filers and $250,000 for joint filers. The definition of NII includes most taxable income such as capital gains from securities sales.

To reduce your NII tax exposure, you might defer realizing capital gains until next year. And investments producing tax-free income, such as municipal bonds, are exempt from the NII calculation. ●

# Remember The Lesson Of Rebalancing

Sometimes investors need to be reminded just how unpredictable equity markets can be. Any big, unforeseen event—such as the United Kingdom's so-called "Brexit" vote to leave the European Union—can result in dramatic market swings. And because such fluctuations are as inevitable as they are unpredictable, it makes sense to be prepared for all possibilities.

The best way for most investors to deal with short-term volatility is to stick to a long-term plan, rather than panicking or making ill-considered market moves. And your plan will need a proper balance between stocks and bonds in your portfolio. Historically, stocks have outperformed other kinds of investments and have provided a hedge against inflation, while bonds have provided steady income and more protection against market volatility.

Diversification and asset allocation—core principles for attempting to control investment risks—are used to create a portfolio that may have the breadth to reduce volatility when markets get turbulent. Your overall tolerance for risk can help determine how you allocate your investments to stocks, bonds, and other assets. Diversification and asset allocation are designed to minimize inherent risks, although there are no absolute guarantees.

But as important as it is to choose a mix of investments that makes sense for you, you'll also need to revisit your portfolio periodically to help restore the balance you've established. If stock prices rise, for example, that part of your portfolio may grow larger than you intended—and this could make you vulnerable if equity prices fall. "Rebalancing" helps you get back to the target percentages you started with.

Yet as simple as that may sound, rebalancing can seem counterintuitive in practice. It requires you to sell investments that have been doing well

# Meeting With The Family For Elder Care Planning

Business managers would never chart a course of action for the future without gathering all of the necessary information, analyzing the pros and cons of different approaches, and meeting with the main people who have a stake in the outcome. Yet many families approach eldercare issues with a similar lack of foresight.

If there is an aging member of your family who soon may need help at home or perhaps will move into an eldercare facility of some kind, it's essential for everyone to talk about what's ahead. Consider trying to call the appropriate relatives together for a family meeting—and be prepared to answer some of these questions:

**Can you meet?** Frequently, inertia will take over or some family members won't see the need for a family discussion. It's difficult to find the time with our busy schedules and other commitments. What's more, many families today are dispersed around the country and beyond. Nevertheless, it's important to bring everyone together to work out a plan.

**Why should you meet?** Whether or not specific problems need to be addressed immediately, a meeting gives family members a chance to share information and air their concerns. One or more siblings may feel that too much of the caretaking is falling to them, while others may express their intention to do more. Encourage family members to get such feelings out on the table. Keep in mind that there is no right or wrong approach. The needs of each family and the best solutions for everyone will vary.

**Who should you invite?** This depends on the size of your family, who takes an active family role, and other factors. Certainly, the children of an elderly parent should be involved, and perhaps the grandchildren, too, if they're old enough to be meaningful participants. Depending on the situation, close family friends and professional advisers also might be included. There could be value to bringing in a third-party caretaker, perhaps a nursing aide or someone else paid to help the parent, who might contribute insight to the discussion. Finally, consider whether or not to include the loved one whose future is being discussed.

**What should you cover?** The older family member's health care may be at the top of the agenda. You may decide to move the person to a nursing or assisted living facility or to upgrade accommodations at a current location. Another option is to keep the person at home and use live-in care. It's also important to determine whether the parent has a living will or other health care directives that express what kind of care he or she wants to receive. Finances also will be an important part of the equation. Establishing a durable power of attorney for a designated person to handle financial matters could be helpful, and you might decide that one or more trusts could help protect family assets. Federal and state rules covering such documents are complex, so be sure to consult with professionals experienced in this area of the law.

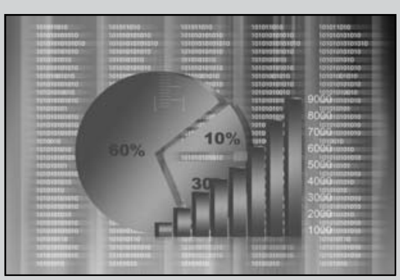
**How should you conduct the meeting?** Just as for a business meeting, an agenda that you develop beforehand could help keep the discussion on track. One of you may want to take the lead in creating an agenda and distributing it by email to everyone who will be there, then revising it to include other family members' concerns.

**What should you do next?** Trying to maintain good communication with everyone is very important, and even in families that have not always been harmonious, this is one time when everyone needs to try to come together for the benefit of the loved one. Of course, conflicting viewpoints are likely to be expressed at the meeting, so you all will need to be prepared to compromise. Have someone take detailed notes and circulate them to everyone, and then ask everyone to agree to honor the agreements you've reached.

You all will have to remain flexible in case the situation changes. Develop a "plan B" if, for example, you choose a particular facility that doesn't work out or the elderly person's condition suddenly worsens. Finally, don't expect miracle solutions, but do involve your financial and other advisers in this crucial effort to help this family member. ●

and buy others that have slumped. Your natural inclination may be to keep riding a wave of success, and to stay away from parts of the market that haven't performed well.

But rebalancing can help impose needed discipline for your plan. It can enable you to sell high and buy low and to maintain the broad balance that may cushion your holdings against volatility. And though it sometimes may result in a lower rate of return than you would have gotten if you'd let your winning positions continue to grow, that may be a small price to pay for feeling more comfortable about your investments.




Rebalancing also can help you resist the impulse to try to "time" the market—attempting to jump in when prices are rising and to get out before they fall. That is rarely a recipe for success and could lead to significant losses.

How often should you rebalance? Expert opinions vary, but you probably should review your portfolio and rebalance at least once a year. The end of the year could be a good time to get your ducks in a row. ●

# Starting A Retirement Plan? SIMPLE

Do you want to set up a retirement plan for your small business? Although you have several options, one popular choice is, by name and definition, simple. It's called the Savings Incentive Match Plan for Employees—or SIMPLE.

A SIMPLE plan provides a tax-advantaged way for employees, including the owner of a business, to save for retirement. It can reduce tax liability while attracting and retaining top-notch workers. And the plan is inexpensive to start up and operate, especially when compared to some other kinds of retirement plans.

To qualify to launch a SIMPLE plan, you must meet two requirements:

1. Your business can't have more than 100 employees.
2. The company can't operate another tax-qualified retirement plan.

If your business is eligible, it's easy to get started. All you have to do is contact your financial advisor or go directly to a financial institution offering SIMPLE plans. Most employers opt for a type of SIMPLE that uses individual retirement accounts (IRAs) for its employees. Anyone who earned at least $5,000 in each of the prior two years generally will be eligible to participate.

With a SIMPLE-IRA, contributions are deposited into employees' personal IRAs, then invested according to those workers' instructions. Typically, a plan will offer a selection of mutual funds. Funds in employees' IRAs can grow on a tax-deferred basis.

The amount of employee contributions is capped by IRS rules. For 2016, the limit is $12,500, plus a catch-up contribution of $3,000 for anyone age 50 or over. (These figures are indexed annually for inflation.)

But that's not the end of the story. Your company could sweeten the deal by adding matching contributions, much as in a 401(k) plan. You can use one of the following methods for these company contributions:

- A non-elective contribution to the accounts of eligible employees equal to 2% of their salary, based on a maximum of $265,000 in compensation for 2016. For this option, the money goes even to employees who don't make their own contributions.
- A dollar-for-dollar match of up to 3% of compensation of participating employees who have elected to make their own contributions.

You can set up your SIMPLE-IRAs for a calendar year as late as October 1 of that year. Also, unlike most other tax-qualified plans, SIMPLE-IRA plans don't have to file annual financial reports with the government. ●

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### Retirement Mistakes To Avoid

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pretend that the information they're seeking is crucial. Be very careful about working with anyone you don't know personally.

Mistake 7. Continuing to support your adult children. No matter how old you are, you never stop being a parent. Nevertheless, there comes a point when you must realize that you're living on a fixed income and can't support your children in the same manner as you could during your peak earning years. Worry about paying your own expenses first. Then, if there are assets left over, you can follow your parental inclinations.

Mistake 8. Underestimating health-care costs. Just because you're eligible to receive Medicare at age 65 doesn't mean all of your expenses will be paid. You'll probably need other coverage to supplement Medicare, and if you or your spouse encounter serious health issues, you could run up extremely high costs for care in a nursing home or care in your home. Long-term care insurance, when purchased early enough, can provide affordable protection. Alternatively, you might need to set aside funds to pay for potential care expenses.


Mistake 9. Leaving work too soon. Sure, some people would like to call it quits as early as possible, but it's important to be realistic. Go back to your budget and consider it in terms of how long you're likely to live. Although it may not be your first choice, the option of working for a year or two longer could help in two ways, adding to your nest egg and shortening the length of time you'll need it to fund retirement expenses. Coordinate this decision with your choices for Social Security benefits.

Mistake 10. Not seeking professional guidance. Instead of trying to do it all on your own, or relying on the advice of friends or family, sit down with your financial adviser to map out a plan. This last step may help you avoid many of the other mistakes and improve your chances of a comfortable retirement. ●

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