

Introduction

**THE LONG, HAPPY LIFE OF YOUR
RETIREMENT SAVINGS**

“Lou was a daredevil. His last words were, ‘Watch this!’ ”

—Obituary featured in *USA Today* (June 22, 2006)

Planning for retirement is no place to be a daredevil, and yet most people are just that, even though they may not think of themselves as one. But anyone who spends a lifetime building up a retirement nest egg and does not take the time to check up on it once in a while to make sure all systems are go is indeed flying without a net and tempting fate.

Imagine getting in your car day after day without ever giving a thought to whether it's got oil in the crankcase or needs a tune-up, without ever having a mechanic take a look under the hood or kick the tires—just to trust that it will always start, always get you where you want to go. You wouldn't think of treating your car that way, and yet if a car breaks down, it can be fixed or replaced. You can call AAA and get it towed, or just leave it by the side of the road and walk away—as I once did years ago when my 1966 Mustang suddenly died on me at the Southern State Parkway tollbooth on Long Island. My dad had to come and pick me up, shaking his head at me in disbelief

as my brother gave me his “what a moron” laugh. But, hey, what was the big deal? It was just a car.

The same cannot be said of your life savings. If that breaks down due to lack of proper care and maintenance, it would take another lifetime to replace—and nobody gets a second chance!

So, this book is for all you daredevils out there who seldom if ever look under the hood of your retirement savings, wherever your account (or accounts) may be housed: a 401(k) plan; a 403(b) plan (also known as a Tax Sheltered Annuity Plan) for employees of schools, hospitals, and tax-exempt organizations; a 457 plan (for governmental employees) or any other company-sponsored retirement plan; an Individual Retirement Account (IRA); a Roth IRA; or a self-employed retirement plan like a Keogh, SEP IRA (Simplified Employee Pension) or SIMPLE IRA (Savings Incentive Match Plan for Employees).

What Can Possibly Go Wrong?

Now that I am older and wiser, I do bring my car in for servicing, where the service department manager tells me that he gives it a proper checkup by putting it through a rigorous fifty-eight-point diagnostic using the latest computer technology. If pressed, I probably couldn't come up with more than five things to look at under the hood of my car that might conceivably break down—and he listed fifty-eight!

It suddenly hit me that the same is true for retirement accounts, where many things can go *kaput* without careful monitoring. Most people just open an account, make contributions, maybe make some investment choices, and that's about it until they retire and start collecting. But by then it's too late to fix what may have gone wrong along the way—and believe me, bad, bad things can happen. For example, you could go broke and end up giving most of your retirement funds back to the government. Of course, going broke is not the end of the world. Lots of people go broke. That's why it's important to know how the prospect of having to declare bankruptcy will affect your retirement savings, tax-wise and otherwise. Remember, unless you're in a Roth IRA, where you pay the tax on your contributions up front, your

retirement account has yet to be taxed, so not all of the money you have saved all these years is really yours.

A healthy retirement account is always a function of a long period of disciplined saving and investing (unless you inherited it, which is an even better plan and a great shortcut!). You would hate to think that after twenty, thirty, or even forty years or more of diligent saving that you slipped up in the end by passing most of it on to Uncle Sam rather than your family. And that's just one of the things that can go wrong!

So, I decided that a process for giving retirement accounts a regular, thorough look under the hood and kick of the tires, a checkup with the same rigorous precision of an automotive diagnostic, was needed. A system that would ensure no moving parts were overlooked—and thus keep retirement account owners, their beneficiaries and families from being financial daredevils.

Your Complete Retirement Planning Road Map is that system. There are many, many things relating to retirement accounts that demand regular attention and monitoring in order to make sure nothing goes off track. How many can you come up with—without looking at the Contents page, that is? This book looks at more than 250 of them—and,

Ask Ed . . .

Q: Does your system also tell me how to invest for retirement?

A: No, this book is not about which stocks or funds to buy. I assume you are already doing that on your own or with professional help, and that you have accumulated some level of retirement savings, large or small, that you will want to protect and preserve, which is where my system steps in. I will say this, however: The best strategy for building retirement savings, one that works all the time, and no one can deny this, is to contribute the maximum you can each year to your retirement account, and to start as early as possible by making saving for retirement a priority from your first day on the job. In other words, pay yourself first, as the saying goes.

most important, shows you how to keep proper tabs on those potential problem areas and tune things up BEFORE they become an issue!

Customized Care for Your Retirement Savings

So, this book is for anyone who is serious about protecting, preserving, and passing the balance (if any) in their retirement account to their heirs *no matter where they are in the planning process*.

For example, you might just be starting to save for retirement in a 401(k) plan at work—in which case, this system of looking under the hood is the perfect way to develop good habits early, from the time you put your first dollar into that 401(k). On the other hand, perhaps you have just retired and moved your retirement savings to an IRA. Or, you might be anywhere in between those two points. Wherever you are in the process of saving for your retirement years, you'll be able to use this system to make sure your money is well protected against *the most common and costly retirement planning mistakes*, and that you won't miss out on any of the many tax breaks you can capitalize on to increase your savings for yourself and your loved ones.

For the first time, you will be assured that you will have done all you can to make the most of your retirement earnings or inherited account, using every possible tax benefit available to leverage exponentially that nest egg into a lifetime of financial peace of mind.

You will then be able to share this information with your family, and boastfully say, "Watch this," with the confidence of knowing that you're not going to go *splat*.

How to Use This Book

My care solution for looking under the hood of your retirement savings consists of five conveniently organized, easy-to-use sections, each made up of a series of checklists relevant to the issues covered in that section. Together, these five sections will address all of the most common retirement savings issues, including many special issues, that most of you will face at some point either as a retirement account owner, account bene-

fiary, or both. I have purposely excluded, however, some of the more obscure tax issues because this book is intended to be a user-friendly guide for most Americans to keeping their retirement accounts healthy, not an overwhelming and intimidating exploration of the tax code. If you believe you have a complex tax situation it is always a good idea to have a conversation with an experienced tax professional, and I would urge you to do so. The sections are as follows:

- **SECTION I: My Account Inventory**

As I noted earlier, it is not uncommon these days for people to own and pass on multiple retirement accounts of different types—401(k), 403(b), IRA, and so on—to multiple beneficiaries. So, proper care of a retirement account or accounts begins here with knowing all there is to know about every account you've got and where that information is. Therefore, this section *applies to every one of you using this book*. It shows you how to survey and keep track of each originally owned account or inherited account now owned by you, then summarize that information for fast, easy reference as you move to the subsequent checklists pertinent to you.

- **SECTION II: The Account Owner's Care Solution**

This section addresses the key ownership issues specifically affecting all holders of an IRA, 401(k) or any other type of retirement account. Failure to address even one of these ownership issues all but guarantees that your account(s) will lose money at some point, either when you start taking distributions or when the money passes to your beneficiaries. Completing this section will give you what you need to avoid these ownership pitfalls. *Keep your beneficiaries in the loop as you plan your decisions in this section. Remember, your beneficiaries will be stuck with those decisions. Inviting their input now will help to ensure a smooth transition down the road and a nest egg that can keep growing instead of losing substantial amounts to taxes.*

- **SECTION III: The Account Beneficiary's Care Solution**

This section addresses the key issues affecting all inheritors of a retirement account or accounts. It is for any type of beneficiary—spouse,

child, grandchild, other family member, friend, favorite charity, or a family trust. Here you or the inheriting entity will be given the tools to map out what you need to be attending to—and when—in order to take advantage of every available tax opportunity if the person you are inheriting from has not kept you in the loop. *This section will also tip you off to key opportunities and pitfalls to avoid that you should make the account owner aware of (if not too late) in his or her planning because they will affect you. Once you have inherited and transferred title and ownership to inherited account(s), thereafter you are the account owner and will use Section II in planning opportunities for your own beneficiaries.*

- **SECTION IV: The Special Issues Care Solution**

This section shows how to address those unique issues that do not apply across the board to every retirement account owner or beneficiary, *but may apply to one and/or the other of you (each checklist will tell you who) at some time.* Here, you will see how to handle these stray issues, such as: accessing retirement funds early without incurring a tax penalty; taking advantage of company stock tax breaks; proper Roth IRA planning; making decisions in the event you or your beneficiary becomes incapacitated. This section is the most complete coverage of these special issues ever compiled for retirement account owners and beneficiaries. If you have a special issue that is *not* covered here, this means yours is a really, *really* special situation that you should address with a professional financial advisor right away.

- **SECTION V: The Follow-Up Care Solution**

Whether you are the account owner or beneficiary of an inherited account, this section serves as your safety net, providing you with all the reminders each of you will need to check up and follow through on during the year (and by year-end) to keep your respective road maps current and your planning on track. This final section also shows how to make sure either *as an owner or a beneficiary of the account(s)* that your respective financial advisor or fund manager attends to every detail you have covered so that nothing goes

awry on the management end in the implementation and maintenance phase of your planning. The checklists here will give you the peace of mind of knowing that your financial advisor has the proper expertise, as well as everything he or she needs from you, to do what you want done correctly—and if not, what to look for in finding one who does.

Structured for Practical Use

I have put this book together in a way that allows you to go straight to the section covering the issues specific to you as the original owner or the beneficiary of one or more retirement accounts, and start working on those issues; then move to the section addressing the *special issues* you may face as either an account owner or a beneficiary.

Furthermore, if, for example, you are the beneficiary of an account, whatever you may need to know as an owner-to-be about issues facing original owners will be cross-referenced to that section, providing you with an extra check so that no important detail gets overlooked or neglected in customizing your retirement plan care solution.

This is the same diagnostic system I use with my own clients and with the financial advisors I train. So, going through it will be like having me sitting beside you, whispering in your ear, guiding you every step of the way.

An Ongoing Process

Once you have addressed the areas in this book relevant to you, be sure to revisit them as events occur in your life—a birth, a death, a marriage, a divorce, ill health, or new financial responsibilities. This means going beyond your year-end checkup. Anytime there is a change in any of the factors that go into your planning, you can use and reuse this book to make sure your overall plan is always up-to-date and in line with those changes—that your plan will always reflect your *current* situation, including any special circumstances.

How to Use the Checklists

Each checklist is divided into two columns. On the left are all the items you will need to address on the particular issue or subject at hand, and on the right is ample space for including your response to each item. Depending upon the item, your response may just be a simple check mark to indicate that you have attended to the item; writing in a brief “Yes” or “No” to a specific question about the item; or providing more detailed remarks should more information or explanation on your part be required. Unless you can do the *New York Times* crossword in pen without making a mistake (but even then), I urge you to use a pencil since you may want or need to make changes later on.

In fact, the more changes you go through in your life, the more valuable this book becomes as a diagnostic. A 30-year-old person, for example, will experience many more changes in his or her lifetime than a 65-year-old person—i.e., marriage, having kids, financing the purchase of a first home, additional schooling for themselves or college for their kids. Each of these changes can affect how you should set up your retirement account. My system gives you the flexibility to monitor this and make the adjustments necessary to respond to each new life challenge and issue you face.

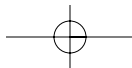
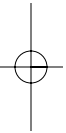
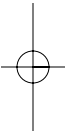
As a result, you can use this book as a resource for the life of your retirement accounts. That is why I say you should start addressing the issue of retirement distribution planning NOW, and make a lifelong commitment to revisit it.

In the end, the reason you are doing this is for complete financial security, not only for you but also for everyone you care about and have saved for as well. Saving means sacrifice. Somewhere, in order to get something, you had to give something up. *Your Complete Retirement Planning Road Map* ensures that these sacrifices will not have been in vain.

Section I

MY ACCOUNT INVENTORY

for everybody



What It Does

We start here because this section applies to ALL of you who are the proud owner (original holder or inheritor-owner) of an IRA or any other type of retirement account, or multiple accounts (as many people are nowadays). You will use this section to inventory each of your accounts in detail—because you will need to know this information in order to facilitate use of the checklists in the sections of the book that follow.

Your objective here is to gather as much information as possible about your accounts so that nothing escapes your attention. For example, many people who have several retirement accounts sometimes forget about one (don't laugh; it happens!). *This information will be used by your financial advisor, your family lawyer and accountant, your spouse and your kids (if they are your beneficiaries) to determine and carry out your wishes for each account after you are gone.* If your spouse or domestic partner has an IRA and/or other retirement account, he or she will want to complete this part for each of their originally owned and/or inherited accounts as well.

- **General Information—Original Owner Accounts.** This checklist surveys each retirement account you own or have rolled over to your own name from a spouse (it does not include accounts you have inherited from someone else including your spouse if you remain a beneficiary on the account): 401(k), 403(b), Roth IRA, traditional IRA, SEP IRA, and SIMPLE IRA just to name a few of the most common. The rules surrounding these accounts can be vastly different (and complicated); and if you are not in full command of the law,

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you or your heirs could encounter penalties when the time comes to withdraw funds from them.

- **General Information—Inherited Accounts.** This checklist surveys each account you now own because you inherited it from someone upon his or her death. This is an important distinction because even though the beneficiary of a retirement account does, in effect, become the owner of that account once he or she inherits it, the documentation requirements, planning opportunities, and especially the tax rules can be and often are stricter for inheritors of an account than for the original owners. This checklist will enable you to stay out of trouble.
- **Summary Information—All Accounts.** This checklist summarizes the information you have collected on each of your originally held or inherited accounts for quick referral as you move through the other sections of this book. This summary of basic data from your general information checklists is what you will probably refer to most often while monitoring your retirement savings (and seeing how much it grows!). It gives you a total picture of all your retirement money without having to go back and dig into the details of each account. This summary also will be extremely valuable to your financial advisor (Section V) who will surely have many questions about your

Ask Ed . . .

Q: How long will it take?

A: Everyone's portfolio is different. The more accounts you have, the more spadework you will have to do by phone and in person to pull together information on each one. But once this is done, the process of continuously updating your account information should take you no time at all—and you will always have that sense of being well organized and in total control.

account(s), and you can now provide answers quickly in a well-organized, easy-to-read, easy-to-access form.

In order to avoid any confusion, here are explanations of some of the key items you will be covering in this and subsequent sections:

- **Type of Account:** The kind of retirement plan that the funds are in—e.g., IRA, Roth IRA, 401(k).
- **Account _____ of _____:** If you are the original owner or inheritor-owner of several accounts, the one you are describing—e.g., Account 1 of 3.
- **Institution or Company:** The name of the custodian (such as a bank or brokerage firm) or the employer holding the account.
- **Account #:** The identifying number the custodian has assigned to the account.
- **Balance:** The total amount in the account as of your last statement.
- **Basis:** The amount of after-tax funds in the retirement account according to your company plan statement or the Form 8606 filed with your tax return.
- **Primary Beneficiary:** The name of the *key* beneficiary—e.g., a spouse—listed on your beneficiary form for this account (see Section II).
- **Contingent Beneficiary:** The name(s) of your second, third, fourth or however many secondary beneficiaries as listed on your beneficiary form (see Section II) for this account.
- **Date:** When you filled out the information sheet.

What's In It for Me?

Your objective in gathering this information is to find out what you have in retirement holdings, where you have it, and what you need to do to make sure you address all the key planning and distribution issues central to the growth and security of each account. I suggest making photocopies of these and, perhaps, other checklist pages throughout the book should you need more copies. As noted in the introduction, I

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strongly recommend you fill these pages out in pencil so that you can make changes later on since the process of updating information on your IRA(s) and other accounts is an ongoing one. You might even want to have several copies of the book on hand for that purpose.

What If I Don't?

Overlooking an account in your arsenal of assets could result in that account's not having a named beneficiary, causing it to go through probate—and, perhaps, winding up in the hands of the one person on the planet you *didn't* want to inherit it, ultimately creating a family feud where only the lawyers end up making any money.

This inventory serves as a safety net in the care and feeding of your retirement nest egg. It may even eliminate the possibility of any posthumous family arguments, costly attorney fees, and probate costs occurring as the result of confusion over your holdings and intentions.

Instructions

Fill out a general information sheet for each account you own or have inherited so that you don't forget one later (it happens!). Then summarize the general information on all your accounts in the appropriate spaces of the summary information sheet. If you have multiple owned and/or inherited accounts, photocopy additional inventory sheets and keep them in this section of the book after filling them out. [Your spouse or domestic partner can photocopy the sheets he or she will need too—or, better yet, can buy a copy of their own!]

Use the space marked "Comments" to make any notes to yourself or to record any additional information you fear might fall through the cracks—for example, forgetting to name a contingent beneficiary in the event, however unlikely it may seem to you, that your primary beneficiary dies before you do. If it's all down in black and white for fast, easy reference, there are no cracks or fissures in your care solution. [After each information sheet, I have included an example—for guidance purposes only—of how each sheet may look once you have filled it out.]

Ask Ed . . .

Q: What should I do with this information once I have pulled it together?

A: Put it in a safe place that you can locate easily—and that any family member who will need access to it will be able to locate easily, as well. Better yet, make copies and give them to family members or advisors for referral. Do not store it in a safety-deposit box since the box will be hard to access after your death.

GENERAL INFORMATION
EACH OWNED ACCOUNT

Survey each account for which you are the owner not an inheritor.

ACCOUNT OWNER: _____

TYPE OF ACCOUNT: _____

IRA, Roth, SEP, 401(k), 403(b), Keogh, etc.

ACCOUNT _____ OF _____ ACCOUNTS

INSTITUTION OR COMPANY _____

ACCOUNT # _____

BALANCE \$ _____ AS OF ____ / ____ / ____

AMOUNT OF BASIS (AFTER-TAX FUNDS) IN ACCOUNT \$ _____

PRIMARY BENEFICIARY % should = 100		%
		%
		%
		%
CONTINGENT BENEFICIARY % should = 100		%
		%
		%
		%
		%

COMMENTS: _____

DATE _____

EXAMPLE

GENERAL INFORMATION
EACH OWNED ACCOUNT

Survey each account for which you are the owner not an inheritor.

ACCOUNT OWNER: John Smith

TYPE OF ACCOUNT: IRA
IRA, Roth, SEP, 401(k), 403(b), Keogh, etc.

ACCOUNT 1 OF 5 ACCOUNTS

INSTITUTION OR COMPANY The Brokerage Firm

ACCOUNT # 1234567

BALANCE \$ 552,687 AS OF 12 / 31 / 05

AMOUNT OF BASIS (AFTER-TAX FUNDS) IN ACCOUNT \$ 10,000

PRIMARY BENEFICIARY % should = 100	<u>Mary Smith</u>	<u>100</u> %
		%
		%
		%
CONTINGENT BENEFICIARY % should = 100	<u>Ann</u>	<u>25</u> %
	<u>Bill</u>	<u>25</u> %
	<u>Carl</u>	<u>25</u> %
	<u>Donna</u>	<u>25</u> %

COMMENTS: Mary is my spouse
After-tax funds come from IRA nondeductible
contributions made in 1990-1994

DATE 01/15/2006

GENERAL INFORMATION
EACH INHERITED ACCOUNT

Survey each account you have inherited.

ACCOUNT BENEFICIARY: _____

ORIGINAL ACCOUNT OWNER: _____

TYPE OF ACCOUNT: _____

IRA, Roth, SEP, 401(k), 403(b), Keogh, etc.

ACCOUNT _____ OF _____ ACCOUNTS

INSTITUTION OR COMPANY _____

ACCOUNT # _____

BALANCE \$ _____ AS OF ____ / ____ / ____

AMOUNT OF BASIS (AFTER-TAX FUNDS) IN ACCOUNT \$ _____

BENEFICIARY IS: PRIMARY _____ OR SUCCESSOR _____

YEAR OF ACCOUNT OWNER'S DEATH _____ PRIMARY BENEFICIARY'S DATE OF BIRTH _____

YEAR OF FIRST DISTRIBUTION TO PRIMARY BENEFICIARY _____

PRIMARY BENEFICIARY'S LIFE EXPECTANCY FACTOR BASED ON AGE IN YEAR AFTER
OWNER'S DEATH _____

SUCCESSOR BENEFICIARY % should = 100		%
		%
		%
		%
		%
		%

COMMENTS: _____

DATE _____

EXAMPLE 1

GENERAL INFORMATION
EACH INHERITED ACCOUNT

Survey each account you have inherited.

ACCOUNT BENEFICIARY: John Smith

ORIGINAL ACCOUNT OWNER: Ben Jones

NAME OF PERSON ACCOUNT WAS INHERITED FROM: _____

TYPE OF ACCOUNT: 401 (k)

IRA, Roth, SEP, 401(k), 403(b), Keogh, etc.

ACCOUNT 4 OF 5 ACCOUNTS

INSTITUTION OR COMPANY ABC Widget Co.

ACCOUNT # 123456

BALANCE \$ 96,857 AS OF 12 / 31 / 05

AMOUNT OF BASIS (AFTER-TAX FUNDS) IN ACCOUNT \$ 12,386

BENEFICIARY IS: PRIMARY OR SUCCESSOR _____

YEAR OF ACCOUNT OWNER'S DEATH 2005 PRIMARY BENEFICIARY'S

DATE OF BIRTH 01/02/1955

YEAR OF FIRST DISTRIBUTION TO PRIMARY BENEFICIARY 2006

PRIMARY BENEFICIARY'S LIFE EXPECTANCY FACTOR BASED ON AGE IN YEAR AFTER OWNER'S DEATH 33.3

SUCCESSOR BENEFICIARY	%
% should = 100	%
	%
	%
	%
	%
	%

COMMENTS: Even though the IRS Single Life Table allows a 33.3 year payout, the company says I have to take the full amount out by 12/31/06 and that I will have to pay income tax on everything but the \$12,386 after-tax amount. See if company will let me wait until 2007 and transfer balance to inherited IRA.

DATE 11/15/2006

EXAMPLE 2

GENERAL INFORMATION
EACH INHERITED ACCOUNT

Survey each account you have inherited.

ACCOUNT BENEFICIARY: John Smith

ORIGINAL ACCOUNT OWNER: Sue Brown (mother-in-law)

NAME OF PERSON ACCOUNT WAS INHERITED FROM: _____

TYPE OF ACCOUNT: IRA

IRA, Roth, SEP, 401(k), 403(b), Keogh, etc.

ACCOUNT 5 OF 5 ACCOUNTS

INSTITUTION OR COMPANY The Credit Union

ACCOUNT # 11556699

BALANCE \$ 123,682 AS OF 12 / 31 / 05

AMOUNT OF BASIS (AFTER-TAX FUNDS) IN ACCOUNT \$ 0

BENEFICIARY IS: PRIMARY _____ OR SUCCESSOR X

YEAR OF ACCOUNT OWNER'S DEATH 2004 PRIMARY BENEFICIARY'S DATE OF BIRTH 1952

YEAR OF FIRST DISTRIBUTION TO PRIMARY BENEFICIARY 2005

PRIMARY BENEFICIARY'S LIFE EXPECTANCY FACTOR BASED ON AGE IN YEAR AFTER OWNER'S DEATH 31.4

SUCCESSOR BENEFICIARY % should = 100	<u>Jennifer</u>	<u>33.3</u> %
	<u>Victoria</u>	<u>33.3</u> %
	<u>Kaitlyn</u>	<u>33.3</u> %
		%
		%
		%

COMMENTS: Account was my mother-in-law's and inherited by my wife. I inherited from my wife at her death in 2006.

DATE 11/15/2006

EXAMPLE

SUMMARY INFORMATION

ALL ACCOUNTS FOR

MY NAME: John Smith DATE: 1/15/2006

SPECIAL INSTRUCTIONS: Summarize the basic data you have collected on each owned or inherited account. Note in the space marked "Comments" any after-tax funds held in accounts listed in your own or inherited general information sheets.

#	INSTITUTION	BALANCE	AS OF	TYPE	OWNER
1	The Brokerage Firm	552,687	12/31/05	IRA	John
2	The Bank	186,981	12/31/05	Roth	John
3	The Brokerage Firm	72,159	12/31/05	IRA	W. Jones
4	The ABC Widget Co	96,857	12/31/05	401 (k)	B. Jones
5	The Credit Union	123,682	12/31/05	IRA	S. Brown

COMMENTS: \$10,000 basis in IRA #1
\$12,386 basis in 401 (k) & I have to take a full withdrawal
before year-end