



# The Decker Approach

A Common Sense Approach To  
Retirement Planning

Brian Decker

The  
Decker Approach  
to  
Retirement Planning

by Brian Decker

Decker Retirement Planning Inc.



The Decker Approach to Retirement Planning

Decker Retirement Planning Inc., Lehi, UT

© 2024 by Decker Retirement Planning

All rights reserved. No part of this publication may be reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without the prior written permission of the publisher.

ISBN: TK



*To my gorgeous wife and my amazing kids.*



# Contents

Introduction	1
Part I: A New Approach to Retirement Planning	7
1. Bad Advice: Common, But Outdated	8
Retirement Models	
2. Good Advice: Two-Sided Risk Models	20
Part II: Creating Your Plan	42
3. Step 1: Work With a Fiduciary	45
4. Step 2: Create a Distribution Plan	51
5. Step 3: Minimize Your Taxes	89
6. Step 4: Protect Your Assets	99
7. Step 5: Reduce Your Risk	109
8. Step 6: Allow for Liquidity	137
9. Protecting Your Legacy	142
Conclusion: Our Commitment to You	158
Acknowledgments	161
About the Author	163



# **Introduction**

Welcome to The Decker Approach to Retirement Planning.

Decker Retirement Planning Inc. provides retirement income planning services. Our job as financial fiduciary advisors is to guide you through creating a retirement plan and then help you manage that plan so you stay on track to achieve your goals and don't run out of money.

I am Brian Decker, founder of Decker Retirement Planning Inc. I bring over thirty eight years of experience with some of the largest investment firms in the nation. I am here because I am passionate about helping people plan successfully and confidently for retirement, and I believe our approach is the path to that success.

## **New Tools for a New Phase of Life**

When you're in your twenties, thirties, forties, and early fifties, financial planning advice centers on "save, save, save," using all the tools in the shed like Roths, IRA contributions, and 401(k)s with the company matching. But when you're getting close to retirement and you've saved like crazy, now what do you do? Now that you know you're going to be receiving the last paycheck

that you're ever going to get from an employer, the rules change.

The focus of this book is about how to take your nest egg and use it to systematically create an income stream that you can count on as long as you live. You need different tools and strategies now that you are over fifty. That's where we can help.

I wrote this book to give you transparency into how we at Decker Retirement Planning Inc. can help create and manage your retirement plan. In these pages, we will take you through our actual planning process and give you specific examples and ideas so you can make and implement your own plan. I will start by describing what's wrong with the outmoded banker and broker approaches to retirement planning, and then I'll explain why two-sided risk models and distribution planning work better. I will guide you through the six steps of the Decker approach to retirement planning:

- Step 1: Work with a fiduciary.
- Step 2: Create a distribution plan.
- Step 3: Minimize your taxes.
- Step 4: Protect your assets.
- Step 5: Reduce your risk.
- Step 6: Allow for liquidity.

Finally, I will talk about how to protect your legacy through estate planning.

## **But First, an Apology**

I want to start by apologizing because the financial industry I am a part of has really hurt a lot of people. It's hurt them by telling them that "buy and hold" is good advice for owning stocks and funds—and then it's hurt them by standing back as people get crushed when the markets drop every seven or eight years.

I apologize for financial professionals who look people over age fifty in the eye and suggest they use a wealth accumulation tool like the asset allocation pie chart from modern portfolio theory—which is not built for people over fifty years old and can hurt people's chances of reaching their retirement goals.

I apologize for advisors who tell you that when interest rates are low, your bond funds are safe, although they clearly are not.

And finally, I apologize for the most devastating, horrific piece of advice to come out of the financial industry—the 4 Percent Rule, a strategy to distribute income from volatile, fluctuating accounts over your lifetime. That 4 Percent Rule has destroyed more people's retirement plans than any other piece of financial advice, in my opinion.

We'll look at this in more detail in later chapters.

At Decker Retirement Planning, we don't use these strategies or tools. If you've already been hurt

by them, we'll try to make it right and get you back on track to a successful retirement plan. Instead, we use distribution planning and two-sided risk models designed to make money in up or down markets, as well as tools to help minimize your taxes and protect your assets and preventative assessments for worst-case scenarios.

We love to see the look on our clients' faces when they see their Decker distribution plan for the first time. They see how much income they can draw, net of tax, on an annual and monthly basis, using conservative estimates. They get to see where the funds come from. They see the cost-of-living adjustment (COLA) that gives them more income each year to keep up with inflation. They see the laddered principal guaranteed accounts that generate their portfolio income each month for the rest of their lives. Using the laddered principal guaranteed approach helps make sure that they'll stay retired through market drops, rising interest rates, and cycling economies. Finally, they see our two-sided risk managers that are tasked with keeping up with the S&P 500 in the good years (85 percent of money managers and mutual funds don't do that each year) and with helping to protect their capital when the markets are in a downtrend.

At Decker, we are legally, ethically, and morally committed to helping you make the best decisions possible in retirement income planning so you can confidently manage market fluctuations and live the retirement life free from financial worry.

Our customers are typically between fifty and eighty years old with a minimum of \$300,000 in

investible assets and averaging between 1 to 5 million dollars in assets. We offer services to people across the country.

The information in this book represents our opinions about the best retirement planning strategies based on our experience. We are not attorneys, and we do not guarantee that any advice or guidance in this book will directly benefit any specific individual.

We're here to answer any questions you have at 1-855-425-4566 or via our website at [www.deckerretirementplanning.com](http://www.deckerretirementplanning.com).

Now let's get started by looking at an overview of the Decker approach to retirement planning—your path to help you achieve a worry-free retirement!

Thanks for reading,  
Brian Decker –Founder  
Decker Retirement Planning Inc.



# **PART I**

## **A New Approach to Retirement Planning**

Before 2008, one of the greatest fears people in the United States reported was public speaking—it ranked even higher than fear of death or fear of going to war! Since 2008, one of the greatest fears in this country is outliving our money—running out of money during retirement, running out of money before we die.

It's happened to too many people in this volatile market climate. But it does not have to happen to you. It's completely possible to create a plan that lets you live the life you want in spite of market fluctuations, inflation, and the other financial worries that retirement can create.

You're looking for a plan that will keep up with inflation and safeguard your money. It should also have a system in place for taking monthly income from your investments in a way that helps you have peace of mind that you will not run out of money and have to go back to work.

The first thing we want to do is talk about the common financial advice that has already sunk so many retirements and why it isn't effective. Then we'll cover how the two-sided risk models and distribution planning we use are designed to help you weather the challenges of today's market.

# 1

## **Bad Advice: Common but Outdated Retirement Models**

Common advice from the banking and broker community is to use asset allocation planning, in which all of your money is at risk and what you consider your safe money is in bond funds which can be risky in low interest environments.

Bankers and brokers will tell you to use the Rule of 100 to help determine how much money you should have in bonds or bond funds. The Rule of 100 says that if you are sixty years old, you should have 60 percent of your investable assets in bonds or bond funds. If you are fifty years old, then 50 percent, and so on. They will tell you to use the buy-and-hold strategy for your stock investments. And they teach you to use the 4 Percent Rule to calculate how much you can draw from your portfolio each year.

None of that makes sense to us! In fact, we believe that each one of those strategies will jeopardize your goal for a safe, smooth retirement journey.

Sadly, asset allocation strategies are all too common. Most people in our country follow the advice of their bankers and brokers, who are salespeople and are motivated by commissions for bonds and certain stocks. At Decker, we are fiduciaries. We are required by law to put our clients' best interest before our company's best interest, and the common advice on the market today is

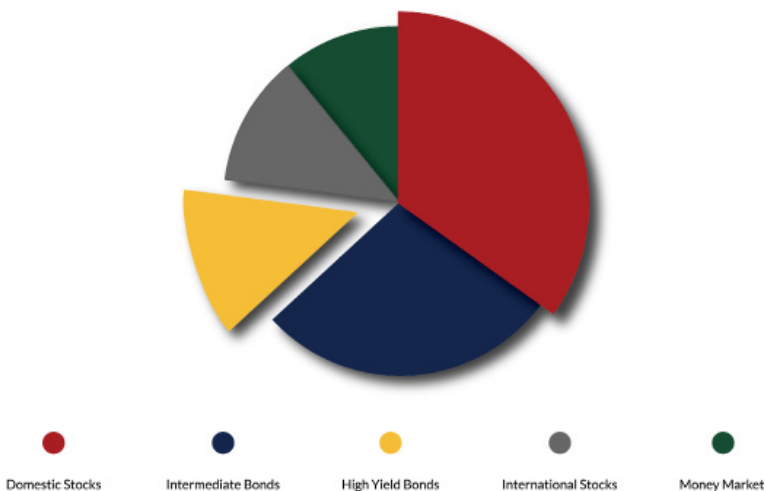
not in your best interest. This chapter divulges just how damaging these strategies can be to your financial health.

## Asset Allocation Planning

Modern Portfolio Theory is based on asset allocation planning—pie chart planning. In this model, a banker or broker asks you questions about your age and your risk tolerance and then produces a pie chart suggesting how you should diversify your investments.

The pieces of the pie are different allocations of stocks: Domestic stocks are broken up into small-cap, mid-cap, and large-cap categories, indicating small, medium, and large companies. Real estate investment trusts and various bond options make up the high-yield bonds, intermediate-term bonds, and international bonds

### Asset Allocation Pie Chart



\*This Asset Allocation Pie Chart is for illustration purposes only\*

categories. International and emerging market funds are typical categories for international stock investments. The money market piece refers to uninvested cash. All these categories diversify you among the income components of your pie chart plan.

The theory is that by diversifying this way, you'll have risk money in stocks and safe money in bonds. This allocation is supposed to change over time.

Asset allocation is a buy-and-hold strategy that is meant for accumulating wealth. It can be appropriate for people in their twenties, thirties, and forties who are working to build and hold wealth. If the markets drop 40% during your accumulation years, no problem. Your income comes from work and every two weeks you are kicking money into your 401K, so, in the three to five years that it takes for the markets to recover, you have actually benefited by dollar cost averaging into a down market.

But if you use this strategy in your fifties, sixties, and seventies, when it's time to take withdrawals, we argue that it can hurt you dramatically. Your income is coming from the account that is down 40%. If you draw income from the account that is down and takes 3 – 5 years to recover, that can be a terminal mistake in retirement. It does not work for retirees in today's challenging market. Here is a math-based principle – If you draw income from a fluctuating account, you will compromise gains when the markets go up and you will accentuate losses when the markets drop.

Don't do that!

We help make sure to draw income from principle guaranteed accounts. In 2022 S&P was down 19%, Nasdaq was down 33% and even Bonds were down -20% and our clients lost nothing in their principle guaranteed accounts. Nothing.

During the Great Recession of '08 and '09, many people lost a lot of the money

they thought would see them comfortably through retirement. They received bad advice based on the asset allocation model and on the outdated assumptions that their financial advisors used to build their plans.

Why doesn't asset allocation work? There are three parts to asset allocation planning that makes it less than ideal for retirees: the Rule of 100, the 4 Percent Rule, and technical analysis.

## **Buy and Hold Strategy**

In your twenties, thirties, forties and fifties, if the markets are down 40% and your 401K takes that hit, no problem. Your income is coming from your work. You are contributing to your 401K every two weeks, dollar cost averaging in to a declining market. In the three to five years for the markets to recover, you are the better off for that market drop since you ADDED funds to a lower market.

Now, let's flip the scenario; Now you are 65 years old and retired. The portfolio you have accumulated over your lifetime to fund your golden years has now dropped 40% in a market downturn. Now you are DRAWING from a portfolio that has dropped significantly. That is a life changing experience for many people, forcing them to go back to work, sell their home, move in with their kids or some other "plan B".

Accumulation strategies build your estate for retirement. Distribution strategies allow you to retire and draw income during your golden years. The strategies are very different. Distribution strategies involve having a plan, risk reduction, tax minimization strategies and the focus on portfolio optimization. Buy and hold strategies are for the accumulation years, not the distribution years.

## **The Rule of 100**

Following their advisors' suggestions, a lot of people go into retirement still using the Rule of 100 to allocate their assets. This rule says that in terms of investing your assets, you should hold a percentage of stocks equal to one hundred minus your age. Or put another way, you should invest your age in bonds. So, if you're age thirty, you would hold a balance of about 70 percent in stocks and 30 percent in bonds. By the time you're sixty-five, you would have moved into 35 percent stocks and 65 percent bonds, CDs, or other securities.

This strategy works pretty well when you are accumulating wealth. When you're in your twenties and thirties, it will be heavier on the stock side, since when you are young and have a paycheck coming to you, you can afford to take more risk and have a greater exposure to stock market fluctuations. As you age, your risk allocation moves more to the bond side to lower your exposure to stocks and potential losses. Losses can be easily made up when you are young, but those losses can be devastating when you are older, retired, and relying on your portfolio to generate income for the rest of your life. Plus, this accumulation model is not designed to help you when you start withdrawing money to take income.

Periods of low interests are great for people in their 20s and 30s looking to buy a home because of low mortgage rates. But in your fifties, sixties, and beyond, low rates can be crushing. You're not getting 6 percent to 7 percent on CDs. In order to generate sufficient income with low interest rates, your assets have to be very large. One million dollars invested in bonds at 4 percent generates only \$40,000 in income per year.

If you're depending on the rule of 100 in asset allocations for retirement income, then you have an even bigger problem when interest rates go up. When interest rates go up, bond prices drop. The main reason for this is because when the economy is doing better, competition demands a higher return from bonds, so yields go up and bond prices drop. The other general reason for bond prices to drop and rates to rise is when the risk of holding that bond goes up. When the risk rises, the price drops and the yield goes higher.

Many think that when interest rates rise, they can make more money on their bonds. Nope. Bond funds lose money when interest rates go higher. This is called interest-rate risk.

For example, in 1994 the ten-year Treasury bond yield went from about 6 percent to about 8 percent in one year. That rise in interest rates resulted in losses of, in our opinion, about 20 percent in various bond funds. In 1999, when interest rates on the ten-year Treasury went from around 4 percent to around 6 percent, there was an average loss of about 17 percent, in our opinion. Your bond funds are not safe when interest rates are down. Plus, those bond funds are not paying you much. What good are they to you in your portfolio? Good question.

Salespeople at banks and brokerages who are not acting in your best retirement interests will claim that bonds are safe money. But when interest rates go up, interest-rate risk will devastate people who own bond funds. That's not truly safe money for retirement! Safe money is supposed to protect you not only from stock market losses but also from the impact of rising interest rates on bond funds.

## **The 4 Percent Rule**

In addition, many advisors still rely on the outmoded 4 percent rule to help people plan for retirement income. In our opinion, this rule is responsible for destroying more people's retirement than any other

piece of financial advice.

The 4 Percent Rule goes like this: Stocks have averaged around 8.5 percent for the last hundred years. Bonds have averaged around 4.5 percent since 1980. Advisors say, “Let’s be really conservative and just draw 4 percent from your assets for the rest of your life, and you shouldn’t run out of money.”

This works beautifully in a bull market, where stocks are trending higher. When we move into a flat market cycle, where stocks trade in a flat range for many years, not only does the 4 percent rule not work, but it could actually destroy your retirement too.

Let’s look at an example. You and your spouse wanted to retire with \$100,000 per year income for as long as you live. The banker or broker using the 4 percent rule advised that you needed \$4 million to retire.

The banker got that number by dividing the \$100,000 figure that you said you needed as income by the risk-free rate of 3 percent, to equal \$3.3 million, meaning that you will need between \$3 million and \$4 million to retire. Let’s play make-believe and say you worked hard and retired with that \$4 million on January 1, 2000—the beginning of our latest flat market cycle.

We’ll use S&P 500 index returns, a major index to show market performance each year, to show how you did with your \$4 million:

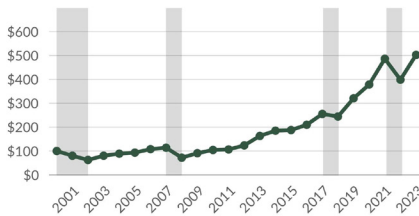
In the first three years of retirement, you lost half your stock money like most people did. However, you actually lost more than half because you were drawing 4

percent per year for three years. You're down 62 percent going into 2003 (loss of 50 percent due to market losses and another 12 percent from three years of drawing 4 percent). But there's good news—from 2003 to 2007, the market doubled its value. However, you don't get this double in portfolio returns because you're drawing 4 percent per year out of 2003 to 2007.

## S&P 500

Dividends Reinvested

2000	-9.03%	2004	10.74%	2008	-36.55%	2012	15.89%	2016	11.77%	2020	18.02%
2001	-11.85%	2005	4.83%	2009	25.94%	2013	32.15%	2017	21.61%	2021	28.47%
2002	-21.97%	2006	15.61%	2010	14.82%	2014	13.52%	2018	-4.23%	2022	-18.01%
2003	28.36%	2007	5.48%	2011	2.10%	2015	1.38%	2019	31.21%	2023	23.06%



stern.nyu.edu

Then you take the devastating stock market hit of 2008—37 percent loss, plus your annual income withdrawal of 4 percent. You're down over 40 percent in a year. Now you no longer have the assets to stay retired. Tragically, the 4 percent rule and asset allocation investing with buy-and-hold strategies for your risk money have taken you out. Game over.

We watched this happen to millions of people. The

gray-haired people came back to work in retail, fast food, Walmart, and banks. Many had to sell their homes and move in with their kids. They had to have a plan B. It was tragic and, in our opinion, unnecessary.

William Bengen, who invented the 4 Percent Rule, publicly retracted it in an interview with Meghna Chakrabarti on the radio program *Here & Now* in 2013. In summary, he said that it does not work in a flat market and with record-low interest rates. He called it “dangerous” and said that he, personally, would not use it. And yet the banks and brokers still recommend the discredited model today as their strategy to distribute income in your retirement years.

## **Technical Analysis**

Technical analysis uses tools such as stochastics, the moving average convergence/divergence oscillator (MACD), and relative strength index (RSI) tools to pick your investments, and they work in a flat market. On the chalkboard, these look really good. In actual practice, there are different, more effective tools for up trending markets, flat markets, and down trending markets.

Technical analysis only produces good results if you know what tools to use in the different markets. When the markets are going higher, stochastics, MACD, and RSI tools don't work anymore—they have you sell instead of holding stocks that are trending higher.

Asset allocation—with its pie chart, Rule of 100

and reliance on bond funds, 4 Percent Rule, and technical analysis—is a terrible way to plan in our current market environment. We at Decker Retirement Planning have a better solution—using two-sided risk strategies and distribution planning to help you weather the market storms. The following chapters show you how.



## 2

### **Good Advice: Two-Sided Risk Models**

With the Decker approach, we like to say that we need different mentalities as we age. We start with an accumulation mentality—save, save, save with a buy-and-hold investment strategy. But when we approach retirement, we need to move into a distribution mentality. With this, we use our assets to give us the income we need and want for as long as we live, and we withdraw from what we have accumulated while still preserving money for unexpected challenges in retirement. Using a combination of our portfolio, Social Security, pension, and rental real estate income, for example, we can draw a monthly paycheck. At Decker, we put all of that together for you in your distribution plan.

What differentiates us at Decker Retirement Planning Inc. is that our approach allows you to generate income while protecting capital for the long term. We use a system that gives you a low-risk monthly income distribution for the first twenty years of retirement while using two-sided risk models to manage your growth and risk portfolio to grow those funds to replace what has been spent in the first twenty years. The two-sided risk models are designed to make money in up or down stock markets.

## Here is how we do it

When the S&P 500 is trading above its 200 day moving average, the market, by definition, is in an uptrend. When the markets are trending higher we have the “offensive team” on the field to make as much money as possible while the markets are trending higher. In an up market we use momentum strategies. They are also called sector rotation and relative strength investing. In this strategy every stock, index and ETF are assigned a relative strength score and you own the highest relative strength stocks, indexes and ETFs.

For example: In 2000, 2001 and 2002 the S&P was down 50% and the Nasdaq was down 70%. In those three years there were several sectors MAKING money over those three years such as REITs, Gold, Silver, the Energy sector, Biotechnology, Healthcare and Pharmaceuticals and momentum investing would have you in those sectors and stocks. Then the market bottomed in March of 2003 and you swapped to Technology, Semiconductors, Small caps, Emerging Markets, etc that took off for 4.5 years. As the markets rolled into 2008, you transitioned to the only three sectors that made money in 2008; Bonds were up +20% and Gold and Silver went higher too.

That is how momentum investing works. We use five different momentum strategies for our offensive strategy when the markets are trending higher.

When the S&P drops below the 200 day moving average, we pull the offensive team off and put the defensive team in to try to MAKE money in a down market, or at least protect capital in a down market. We are using 5 strategies that DID make money in down markets of the past like 2008 and 2022.

Let's explore how we advise our clients regarding their distribution plan, and then we'll look at risk portfolios, or stock market funds.

## **Distribution Planning: Securing Your Retirement Income**

We believe in distribution planning, which is the idea that the income money you need in the next five years should be more safe and more liquid than money that you don't need for ten or twenty years (which could be more at risk, or more into the markets, or less liquid). We try never to risk your income money, which is the money that produces your monthly income for the first twenty years of retirement.

We work with you to create a systematic plan of purposed-based investing using buckets. Buckets are categories that we divide your money into to strategize your income for the first five years, ten years, and twenty years, as well as your investments. These allow you to get away from an outmoded accumulation model. Instead, they isolate money for near-term, medium-term, and long-term distribution in a way that lets you stay on

track to help make sure that you never run out of money.

We call them Buckets 1, 2, and 3 and the Risk Bucket.

Buckets 1, 2, and 3 are guaranteed principal accounts. This means that your money is held in assets that guarantee to preserve your principal investment. This limits us to four types of investments: those guaranteed by a bank, an insurance company, a municipality, or the Federal Government. These buckets will generate your monthly income for the first twenty years of your plan with no risk to your initial investment. That's very important to us: the money that you're going to draw as income from your portfolio has to be, in our opinion, from a principal guaranteed account.

We saw firsthand the importance of principal guaranteed accounts when the markets crashed in 2008. We'll never forget a client couple who drove up to our home office from Oregon. No appointment. We rushed out of our conference room meeting and met them in the parking lot. With tears in their eyes, they hugged us and thanked us because the market had crashed and their monthly income was not under threat. They didn't have to change their vacation plans, they didn't have to sell their home, and they didn't have to go back to work. They didn't have to do what they saw most of their friends having to do.

This is the most important thing we do for our clients: Help them create a solid plan that helps them be truly free from income worry even in the worst of times for the market. Our approach to distribution planning

invests your income differently from your risk money. As stock markets cycle every seven to eight years with a 30-plus percent drop, market crashes will hurt most people in retirement, but it may not hurt our clients because of the way we help set up their plan—with their income for the first twenty years coming from principal guaranteed accounts.

## **Your Income Buckets: Buckets 1, 2, and 3**

We use a laddered approach with three buckets to invest our clients' money that they will need for the first twenty years of retirement. A laddered approach removes interest-rate risk since we are not using bond funds and do not lose principal if interest rates go higher. In fact, we benefit from higher rates instead of getting hurt by them. A laddered approach also allows us to use the interest-rate curve to our advantage. We get a low rate from our short term investments in Bucket 1, a much better rate for our ten-year investments in Bucket 2, and our best rates for our twenty-year investments in Bucket 3. Finally, a laddered approach of principal guaranteed accounts removes stock market risk from our clients' income portfolios. Stock market crashes destroy many people's retirement. Retirees using this strategy sailed through 2008 unaffected because of the laddered principal guaranteed account strategy.

Bucket 1 is a five-year distribution account and is usually the lowest-earning account. Its job is to be principal guaranteed and distribute monthly income

via automatic deposit to the client's checking account. Bucket 1 is designed to be drawn down to zero in five years at the monthly amount you have set as your income goal.

Here's where a lot of clients gasp in surprise! We were taught growing up to never touch or spend our principal.

That worked in the days when interest rates were high enough that we could live off interest. When interest rates are at hundred-year lows, that's a laughable strategy. You can't do that unless you have \$50 million.

We spend this principal in order to give your longer-term money time to grow. In the five years that you're spending Bucket 1, the others—Buckets 2 and 3 and the Risk Bucket—are allowed to grow in higher-earning accounts. The distribution account is usually only earning around 1 percent, while the other accounts are earning 3, 4, and 6 percent. Those higher-earning accounts grow and accumulate faster. Most of the time we find that the Bucket 1 money spent in the first five years is less than the accumulated gains of Buckets 2 and 3 and the Risk Bucket. The table on the next page illustrates this.

Decker Retirement Planning Inc. A Safer Retirement		Emergency Cash: \$25,000 Discretionary Cash: \$0 Est Capital Gains: \$0		John and Jane Johnson													
Year	Age	Age	January	Net Monthly Income	Net Annual Income	Taxes	Gross Income	John's Social Security	Jane's Social Security	Therion	Income From Assets	Cumulative Income From Assets	Bucket 1	Bucket 2	Bucket 3	Risk Bucket	Total Projected Cash Balance
15%																	
0.5%																	
0.5%																	
1%																	
2%																	
3%																	
4%																	
5%																	
0	70	69	2022	\$8,121	\$97,449	\$17,187	\$114,646	\$36,275	\$28,694	\$10,000	\$39,677	\$39,677	\$228,720	\$28,839	\$58,431	\$129,528	\$1,425,088
1	71	70	2022 - 2023	\$8,366	\$102,322	\$17,713	\$114,889	\$36,466	\$28,837	\$10,000	\$40,211	\$82,488	\$187,003	\$28,824	\$58,485	\$130,224	\$1,494,155
2	72	71	2023 - 2024	\$8,615	\$107,383	\$18,244	\$115,127	\$36,639	\$28,982	\$10,000	\$40,726	\$127,609	\$288,003	\$28,813	\$58,539	\$140,932	\$1,563,318
3	73	72	2024 - 2025	\$8,874	\$112,626	\$18,776	\$115,376	\$36,812	\$29,107	\$10,000	\$41,241	\$171,850	\$369,244	\$28,803	\$58,593	\$151,635	\$1,632,491
4	74	73	2025 - 2026	\$9,144	\$118,050	\$19,311	\$115,633	\$36,987	\$29,232	\$10,000	\$41,756	\$218,606	\$500,950	\$28,793	\$58,647	\$162,330	\$1,701,664
5	75	74	2026 - 2027	\$9,424	\$123,654	\$19,848	\$115,893	\$37,191	\$29,357	\$10,000	\$42,271	\$268,877	\$729,221	\$28,783	\$58,701	\$173,024	\$1,770,837
6	76	75	2027 - 2028	\$9,714	\$129,438	\$20,388	\$116,156	\$37,317	\$29,481	\$10,000	\$42,786	\$320,663	\$949,907	\$28,773	\$58,755	\$183,717	\$1,840,009
7	77	76	2028 - 2029	\$9,997	\$135,399	\$20,934	\$116,422	\$37,443	\$29,606	\$10,000	\$43,301	\$374,964	\$1,184,871	\$28,763	\$58,809	\$194,410	\$1,909,179
8	78	77	2029 - 2030	\$10,287	\$141,534	\$21,481	\$116,691	\$37,569	\$29,731	\$10,000	\$43,816	\$431,780	\$1,466,657	\$28,753	\$58,863	\$205,102	\$1,978,352
9	79	78	2030 - 2031	\$10,584	\$147,945	\$22,031	\$116,962	\$37,697	\$29,862	\$10,000	\$44,331	\$501,111	\$1,777,768	\$28,743	\$58,917	\$215,793	\$2,047,525
10	80	79	2031 - 2032	\$10,888	\$154,622	\$22,584	\$117,236	\$37,827	\$29,994	\$10,000	\$44,846	\$572,957	\$2,110,725	\$28,733	\$58,971	\$226,484	\$2,116,698
11	81	80	2032 - 2033	\$11,198	\$161,565	\$23,140	\$117,513	\$37,958	\$30,121	\$10,000	\$45,361	\$647,318	\$2,468,043	\$28,723	\$59,025	\$237,175	\$2,185,871
12	82	81	2033 - 2034	\$11,514	\$168,776	\$23,700	\$117,792	\$38,056	\$30,247	\$10,000	\$45,876	\$724,194	\$2,842,237	\$28,713	\$59,079	\$247,866	\$2,255,044
13	83	82	2034 - 2035	\$11,836	\$176,253	\$24,263	\$118,073	\$38,155	\$30,374	\$10,000	\$46,391	\$803,585	\$3,233,822	\$28,703	\$59,133	\$258,557	\$2,324,217
14	84	83	2035 - 2036	\$12,163	\$184,004	\$24,829	\$118,356	\$38,256	\$30,501	\$10,000	\$46,906	\$885,991	\$3,642,813	\$28,693	\$59,187	\$269,248	\$2,393,390
15	85	84	2036 - 2037	\$12,495	\$192,037	\$25,400	\$118,641	\$38,300	\$30,628	\$10,000	\$47,421	\$971,412	\$4,070,225	\$28,683	\$59,241	\$279,939	\$2,462,563
16	86	85	2037 - 2038	\$12,832	\$200,352	\$25,974	\$118,928	\$38,397	\$30,756	\$10,000	\$47,936	\$1,060,848	\$4,517,073	\$28,673	\$59,295	\$290,630	\$2,531,736
17	87	86	2038 - 2039	\$13,174	\$208,957	\$26,551	\$119,217	\$38,438	\$30,884	\$10,000	\$48,451	\$1,153,300	\$4,980,373	\$28,663	\$59,349	\$301,321	\$2,600,909
18	88	87	2039 - 2040	\$13,521	\$217,852	\$27,131	\$119,508	\$38,532	\$31,012	\$10,000	\$48,966	\$1,249,266	\$5,459,639	\$28,653	\$59,403	\$312,012	\$2,670,082
19	89	88	2040 - 2041	\$13,873	\$227,045	\$27,714	\$119,799	\$38,628	\$31,139	\$10,000	\$49,481	\$1,348,747	\$5,950,386	\$28,643	\$59,457	\$322,703	\$2,739,255
20	90	89	2041 - 2042	\$14,230	\$236,536	\$28,300	\$120,092	\$38,726	\$31,266	\$10,000	\$50,000	\$1,451,747	\$6,452,633	\$28,633	\$59,511	\$333,394	\$2,808,428
21	91	90	2042 - 2043	\$14,592	\$246,325	\$28,889	\$120,387	\$38,826	\$31,394	\$10,000	\$50,519	\$1,558,266	\$6,965,852	\$28,623	\$59,565	\$344,085	\$2,877,601
22	92	91	2043 - 2044	\$14,959	\$256,412	\$29,481	\$120,684	\$38,927	\$31,522	\$10,000	\$51,038	\$1,669,304	\$7,490,160	\$28,613	\$59,619	\$354,776	\$2,946,774
23	93	92	2044 - 2045	\$15,331	\$266,897	\$30,076	\$120,983	\$39,029	\$31,651	\$10,000	\$51,557	\$1,783,861	\$8,026,717	\$28,603	\$59,673	\$365,467	\$3,015,947
24	94	93	2045 - 2046	\$15,708	\$277,780	\$30,674	\$121,284	\$39,132	\$31,775	\$10,000	\$52,076	\$1,901,937	\$8,574,654	\$28,593	\$59,727	\$376,158	\$3,085,120
25	95	94	2046 - 2047	\$16,090	\$289,061	\$31,275	\$121,587	\$39,237	\$31,900	\$10,000	\$52,595	\$2,023,532	\$9,134,186	\$28,583	\$59,781	\$386,849	\$3,154,293
26	96	95	2047 - 2048	\$16,477	\$301,242	\$31,879	\$121,892	\$39,342	\$32,025	\$10,000	\$53,114	\$2,149,646	\$9,705,800	\$28,573	\$59,835	\$397,540	\$3,223,466
27	97	96	2048 - 2049	\$16,869	\$314,323	\$32,484	\$122,199	\$39,448	\$32,150	\$10,000	\$53,633	\$2,280,279	\$10,297,079	\$28,563	\$59,889	\$408,231	\$3,292,639
28	98	97	2049 - 2050	\$17,266	\$328,304	\$33,091	\$122,508	\$39,555	\$32,275	\$10,000	\$54,152	\$2,415,431	\$10,900,511	\$28,553	\$59,943	\$418,922	\$3,361,812
29	99	98	2050 - 2051	\$17,668	\$343,185	\$33,700	\$122,818	\$39,663	\$32,400	\$10,000	\$54,671	\$2,555,102	\$11,514,182	\$28,543	\$59,997	\$429,613	\$3,430,985
30	100	99	2051 - 2052	\$18,075	\$358,966	\$34,311	\$123,129	\$39,772	\$32,525	\$10,000	\$55,190	\$2,700,292	\$12,130,474	\$28,533	\$60,051	\$440,304	\$3,500,158
				Total Gross Income \$5,454,500				\$1,129,037	\$935,004	\$300,000	\$3,000,268						

John and Jane Johnson started with a balance of \$1,425,088 (seen in the black line at the top of the Total Projected Cash Balance column). The Cumulative Income from Assets column shows what they withdrew for income each year. How much money did John and Jane pull as monthly income from their plan after five years? \$230,559. Surely, after drawing \$230,559 from their plan with a starting balance of \$1,425,088, you would see a drop in the total balance. But how much was their total worth after five years? The total went up to \$1,484,284. How did it do that? In the five years that they were drawing monthly income from their lowest-earning account (Bucket 1), it gave them five years for their three highest-earning accounts (Buckets 2 and 3 and the Risk Bucket) to grow, compound, and more than offset the \$230,559 that John and Jane drew as income from their accounts in those five years!

After five years Bucket 1 is gone, and Bucket 2 matures to provide monthly income for years six through ten. After ten years, John and Jane have drawn a total of \$549,778 from their accounts, as shown in the line



After fifteen years we re-ladder to create a new bucket of principal guaranteed accounts to fund the next ten years of their life.

The principal guaranteed accounts we use are growth vehicles. When the markets go up, these accounts participate. When the markets go down, these accounts do not lose money. Not a dime. Some of these accounts have maturities on them, but we call that the cost of liquidity. If you have an account with a five-year maturity (such as a five-year CD), you're going to get a higher rate of return than an account that's completely liquid (like a money market account) or a one-year CD rate. You need liquidity in order to be able to draw your monthly income, but we also want the highest growth rates possible for our clients.

It is a balancing act.

We all know that money in the stock market is completely liquid, but we want that money set aside for long term growth because we know that over the long run, the stock market has exceptional returns. If you're trying to take income out of the stock market on a monthly basis, like many people do, then you're shooting yourself in the foot for those long-range returns. If the stock market's going down and you're taking income from that account, you are accelerating your losses. If you draw from stock accounts as markets rise, you are compromising your gains.

Buckets 1, 2, and 3 provide income for the first twenty years of your retirement plan. There's tremendous peace of mind of knowing that when the markets crater

every seven or eight years, you have principal guaranteed accounts and are not going to have to go back to work because your retirement has collapsed. Stock market risk is eradicated in these income accounts. Also, when interest rates go up and hurt the bond fund investors, our clients actually benefit from higher rates due to laddered maturities that allow us to reinvest at higher rates.

Do you see why our clients who followed this plan sailed through the market crash of 2022? Unaffected! Our planning clients did not have to change their lifestyle or even their travel plans. They did not have to go back to work or move in with the kids because their source of income was principal guaranteed, which protected them from the stock market crashes that seem to hit every seven or eight years and can be so devastating to retirees. The laddered principal guaranteed accounts guard against stock market risk and eliminate interest-rate risk since they do not lose money as interest rates rise.

## **The Risk Bucket: Two-Sided Risk Models**

We have a Grand Canyon gap between how we invest your income money for the first twenty years (Buckets 1, 2, and 3) and how we invest your risk money (the Risk Bucket). Your Buckets 1, 2, and 3 income money is in laddered principal guaranteed accounts, and your risk money—money you don't need for the next ten or twenty years, based on your risk tolerance—is money in the stock market and is not principal guaranteed .

We manage your risk money through our offense and defensive risk models. Imagine that inside your computer, you have the entire world's stocks—all the large-cap, midcap, small-cap, growth, value, international, emerging markets, indexes, and exchange-traded funds (ETFs) of the world.

Every individual stock has a rolling average price for the last two hundred days that's plotted as a black solid line. The computer tracks the two-hundred-day moving average of each stock, plotted in a blue line. As long as the stock is valued above its own two-hundred-day moving average, it is in an uptrend. Uptrends make you money. If a stock dips enough to break its uptrend, it can be automatically sold, because downtrends lose you money.

Essentially this approach is a two-sided risk/trend-following momentum model, holding only stocks that are trading in an uptrend for as long as that uptrend continues. When that uptrend is broken, we move to a defensive strategy to protect capital and/or try to make money in a down market.

These models made money in 2000, 2001, and 2002, when the markets were down. They made money in 2003 through 2007, when the markets went up. They protected capital when the markets went down—and actually made money, overall, in 2008, when the market lost 37 percent. They made money in 2009, 2010, 2011, 2012, 2013, and 2014 collectively. They were flat in 2015, but so was the S&P 500 for 2015, and the defensive managers were able to make money in 2022.

But we don't want you to make decisions based on a summary from a limited window of time, so let's look at their historical performance against the S&P.

We'll start in the nineties. You remember the good old days when Microsoft, Cisco, Intel, Dell, and other dotcoms were on a tear. The two-sided risk models would have automatically held those up trending tech stocks based on their rolling two-hundred-day average—that's what they are designed to do—and they made tons of money.

Then in 2000, the markets turned. In the spring of 2000, many two-sided risk models would have automatically kicked those tech stocks out of the portfolio as soon as they crossed the two-hundred-day moving average line. (Again, that's what the models can be set up to do automatically—no dithering or last-minute decision making on your part when you could be losing money.)

In 2000, 2001, and 2002, a lot of people lost half their money in the stock market. People who were invested heavily in tech lost a lot more than that since the Nasdaq was down 70% in that time. In the same period, the two-sided risk models we are using now would have made money each year, net of fees, on a combined basis using the momentum offense/defense strategies.

The reason two-sided risk models would have been able to make money during these tough years is that not every investment sector hit a downtrend. There were plenty of sectors that continued to go up. Real estate was very strong all through that period in 2000,

2001, and 2002, so the two-sided risk models would have owned real estate investment trusts (REITs) and real estate stocks. They would have held the material sector, like copper, steel, aluminum, cement, and timber. They would have held the energy sector that was strong all three years. They would have held precious metals (gold and silver companies). Finally, they would have held the health care, biotech, and pharmaceutical sectors that were strong all three years.

From 2003 to 2007, the markets doubled, and the two-sided risk models tracked with the S&P over that period.

Then we come to the crash of 2008. The S&P fell 37 percent that year. However, plans on the two-sided risk model were not affected so drastically. Of the five managers we are using for two-sided risk models, the focus would be on the three up trending sectors in 2008; Treasuries were up 20%+ and Gold and Silver were up in 2008.

Let's finish out the data from 2009 through 2015. The two-sided risk models made, net of fees, returns similar to the S&P 500 in each year from 2009 through 2015.

## **What about flat market cycles?**

There have been three flat market cycles in the last 130 years; 1929 to 1946, 1964 – 1982 and 2000 – 2014. A flat market cycle is devastating to retirees counting on

their portfolio to make money. Imagine your portfolio not earning any return for 10-15 years! Are you prepared for that? We believe another flat market cycle started in November of 2021. Why? The flat market cycles began due to very high valuations. There have been only four times that the S&P500 has traded above 30 times trailing earnings; 1929, and it took 17 years to get your money back. 1964 and it took 18 years to get your money back. November of 1999, and it took 14 years to get your money back. In November of 2021 we hit 32 times trailing earnings, which has historically started a flat market cycle.

In a flat market cycle, any passive investment strategy of buying and holding stocks, indexes, ETFs or mutual funds, will yield nothing, if history repeats.

We use active investment strategies, so, when the markets are trending higher, we have the “offensive team” on the field making money for clients in an UP market.

When the markets are in a down trend, we have the “defensive team” on the field making money for clients in a down market, or, at least protecting capital in a down market.

This growth from two-sided risk models includes the period from January 1, 2000, to December 31, 2010—the worst decade ever in the history of our country’s stock markets. Worse than the Great Depression of the 1930s. Tested by our greatest financial crisis in

history, the two sided risk models pass with flying colors.

Two-sided risk models are designed to make money in up or down markets, and to protect your capital in three ways: The computer algorithms buy stocks, indexes, and ETFs that are in an uptrend. Your algorithm can automatically sell when a stock breaks the uptrend. Finally, it can raise cash while the markets drop, thus helping to protect capital. Let's look at each of these in more detail.

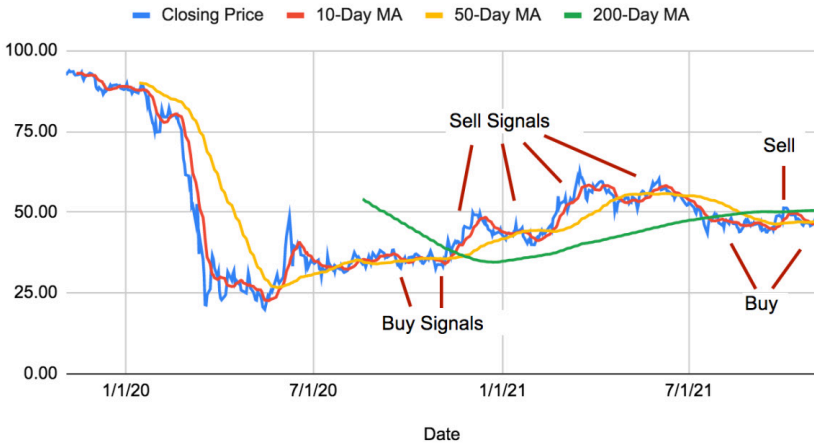
## **Automatically Buy Uptrending Stocks**

When the computer has complete control, whatever stocks in the world are trending higher can be part of your momentum, trend-following portfolio. Automatically, the computer can own anything that's trading above the two hundred-day moving average. These are quantitative, momentum, trend-following models—great at identifying any stock or fund in the world that is on a strong uptrend.

## **Automatically Sell When a Stock Breaks the Uptrend**

Any stock that breaks its uptrend can automatically be sold. Cash in your portfolio hurts you when the stock market is going up, but cash is king when the markets

go down. You would think that most mutual funds and money managers would raise cash in a down market, but that is not the case. Most mutual funds have written into their prospectus that they can't hold more than 5 to 7 percent cash, so if the market tanks, they're going down with the ship.



We don't paint you into a corner this way. These two-sided risk models can be 100 percent cash if there's nothing to buy, because cash is very important in protecting capital in a down market.

## Automatic Protection of Capital

When the Dow Jones, the S&P 500, and the NASDAQ cross the two-hundred-day moving average, then the markets are said to be in a defined downtrend. When that happens, the defensive risk models may go into protection-of-capital mode and hold a portion of

your portfolio in cash. Some people view this as risky.

We define risk as downside volatility, which are portfolio losses. We don't want you to lose money! An automatic protection-of-capital mode helps make sure that our clients are able to use a two-sided portfolio approach in a two-sided market, shrink market risk, and maintain exposure to stock market gains without the huge losses in a down trending market.

These models help protect client capital in a down market and help keep up with the S&P in the good years.

That's what we care about when we manage risk money.

## **Risk Models**

Decker currently uses five managers for two-sided risk models in our planning. All five offensive managers are momentum based.

Here is how we do it.

When the S&P 500 is trading above it's 200 day moving average, the market, by definition, is in an uptrend. When the markets are trending higher we have the "offensive team" on the field to make as much money as possible while the markets are trending higher. In an up market we use momentum strategies. They are also called sector rotation and relative strength investing. In this strategy every stock, index and ETF are assigned a

relative strength score and you own the highest relative strength stocks, indexes and ETFs.

For example: In 2000, 2001 and 2002 the S&P was down 50% and the Nasdaq was down 70%. In those three years there were several sectors MAKING money over those three years such as REITs, Gold, Silver, the Energy sector, Biotechnology, Healthcare and Pharmaceuticals and momentum investing would have you in those sectors and stocks. Then the market bottomed in March of 2003 and you swapped to Technology, Semiconductors, Small caps, Emerging Markets, etc. that took off for 4.5 years. As the markets rolled into 2008, you transitioned to the only three sectors that made money in 2008; Bonds were up +20% and Gold and Silver went higher too.

That is how momentum investing works. We use five different momentum strategies for our offensive strategy when the markets are trending higher.

When the S&P drops below the 200 day moving average, we pull the offensive team off and put the defensive team in to try to MAKE money in a down market, or at least protect capital in a down market. We are using 5 strategies that DID make money in down markets of the past like 2008 and 2022.

Our clients who are using two-sided risk models aren't afraid of the market. In fact, these models allow our clients to sail through markets like the crash of 2022 because they can make money in a down market and because they're living on their income-distribution models, which are principal guaranteed, rather than on

stock investments.

## **Investment Manager Choices**

To find the best managers and strategies, every quarter we research Morningstar, a huge database of mutual funds, the Wilshire database of money managers, and a few other databases to identify any no-load mutual funds, strategies or money managers that have outperformed our current managers based on cumulative, net-of-fee performance since January 1, 2000.

We are not interested in who beat us last year, or two years ago. We want to see first how they did in 2000, 2001, 2002, 2008, and 2022, which are the big down markets in recent history. Then we want to see how they have kept up with the S&P over the long term in the good years.

Each quarter, when we do this search, we find about sixty funds or money managers with numbers that beat ours. They typically fall into four categories:

- Closed to new investors
- Hedge funds
- \$3 million or more per-account minimum
- High-beta, or roller-coaster, funds

When a fund or money manager falls into one of these categories, even if it's performing well and beating our numbers, we cannot advise our clients to invest in them. If they're closed to new investors, we literally cannot put you into their funds since they are not taking any new clients. Hedge funds are a high risk, and we will categorically never put client money with a hedge fund. We'll talk more about why in chapter 7 on risk reduction. If a per-account minimum is \$3 million or more, we just can't diversify that. High-beta funds go way up in the good years and drop very quickly in the bad years. This poses a big risk. In fact, in the fourth quarter of 2016, two mutual funds qualified mathematically to be on our platform, but we could not use them since they both lost over 20 percent in 2022. We need downside protection.

In decades of research, these results continue to be consistent, underscoring our belief that using our current money managers for our clients' risk money is in the best interest of our clients. We look for the best funds and money managers we can find, and we'll replace any of our current managers if we find a better one that fits our clients and our philosophy. Remember, our mission statement for risk money is twofold: (1) try to protect client principal in a down market and (2) try to keep up with the S&P 500 index in the good years.

Retirees who planned with two-sided risk models and distribution planning went through one of the worst stock market crashes in history without having to change their retirement plans, confident that their income was secure in principal guaranteed accounts and their growth money was automatically managed to take advantage

of both sides of our two-sided market. A two-sided risk approach, along with principal guaranteed income accounts, gave them peace of mind so they did not lie awake at night worrying about their retirement. We believe there were many retirees trying to keep up on their stock research, or trying to understand why their banker's or broker's 4 percent rule wasn't working. Ouch!

You've seen the concept and overview of our planning process. Now come with us as we cover the steps to create your retirement plan with the Decker approach.



## **PART II**

# **Creating Your Plan**

Your individualized plan takes into account your age, your sources of income (such as Social Security, a pension, real estate income, portfolio income, and so on), and shows how much you can draw from your assets until age one hundred. We'll talk you through every detail of the plan, and how we calculate your income, in the coming chapters.

Once the plan is built, we try to punch holes in it. We put it through a stress test of the major problems that people face in retirement, such as inflation, stock market crashes, the death of a spouse, and long-term care, to help make sure your plan is solid enough to hold up in the worst-case scenario. Along the way, we are paying careful attention to help minimize your taxes, protect your assets, reduce your risk, and preserve your legacy.

When we're working with new clients, the planning process takes roughly four to eight appointments to complete. We create multiple drafts of the plan until it is the right one for the clients in their situation. Once the plan is in place, we do formal, comprehensive, annual reviews to adjust any of the parameters necessary as the clients age and as their needs change.

Whether you're planning on working with us at Decker Retirement Planning Inc. or you're just starting to

learn about the retirement planning process, the following chapters will help you understand the planning approach we recommend and avoid common mistakes.

## **The Six Steps**

Every Decker retirement plan is based on six steps that we believe are essential to help ensure you a worry-free retirement:

1. **Work with a fiduciary:** Fiduciaries are required by law to put our clients' best interest over our company's best interest. For example, we could never recommend a variable annuity to any of our clients. Variable annuities are heavily weighted with fees and broker commissions, and therefore, they typically lag the S&P in the up years and dramatically lose money in the down years. We believe variable annuities have no place in our planning, yet bankers and brokers recommend them regularly. We are different. We must do what is in our client's best interest in all parts of planning. Period. We cover this topic in detail in the next chapter.

2. **Create a distribution plan:** The income plan is the heart of your retirement plan. Our goal is to help make sure you have the income you need for as long as you live. That's foundational. Our distribution planning helps focus on making sure your income is adequate to meet cost-of-living increases and fight inflation through age one hundred. We create a highly visual spreadsheet that clearly shows you where your income will come from

this year, five years from now, and twenty years from now. Find out more in chapter 4.

3. **Minimize your taxes:** Paying unnecessary taxes can take a big bite out of your retirement income and can make the difference between meeting your goals and not. We identify ways that you can help minimize your taxes—you might be surprised at how much you can save! Chapter 5 tells you how.

4. **Protect your assets:** Safeguarding includes all the different types of insurance you'll need to protect your assets—umbrella policy for liability insurance, long term care insurance, life insurance, and so on. We'll look at all the options in chapter 6.

5. **Reduce your risk:** The fifth step is risk reduction.

We look at strategies to manage stock market risk and eliminate interest-rate risk, helping to make sure that we shrink your risk as much as possible. Chapter 7 details our preferred strategies.

6. **Allow for liquidity:** Liquidity is money that can be in your savings or checking account next day, no penalty. Chapter 8 takes a brief look at why this is so important.

Beyond using the above steps to develop your retirement plan, we also work with you and your legal and accounting advisors to help make sure your legacy is protected through estate planning, trusts, and powers of attorney. We cover that in chapter 9.

## 3

### **Step 1: Work with a Fiduciary**

The first step toward successful retirement is not about what's in your plan—it's about who helps you create it: a fiduciary advisor. Fiduciaries are required by law to put their client's best interest before their own or their company's best interest. It's a higher ethical and moral standard in the finance industry.

A fiduciary gives advice on your whole situation—all aspects of your comprehensive retirement plan—not just your portfolio management. They try to make sure you are educated on all your options so you can pick the best solutions for you. They are paid for advice that serves your best interests. A fiduciary is not someone who is going to sell you something just because they'll be paid a commission for it. In fact, a fiduciary cannot receive any security commissions. We are fee-only when it comes to securities.

All security fees must be aboveboard.

Why is this important? Because someone who is not a fiduciary might try to steer you in the direction that benefits them the most. For example, a banker or broker who is not a fiduciary might tell you about a mutual fund that pays them a commission but not about no-load mutual funds that do not pay them a commission.

It's important to know that not all financial advisors operate as fiduciaries. Anytime you work

with someone who is giving you financial advice or actively managing your money, make sure that person is a fiduciary. Otherwise, they have no responsibility to present you with all your options or to advise you on the choices that fit best with your retirement goals. Bankers and brokers are not fiduciaries. The Department of Labor fiduciary rule proposed in 2015, and challenged in the courts in 2016, came about to try to give consumers more visibility into the massive commissions being charged by bankers and brokers for high-commission items such as variable annuities and nontraded REITs. Some commissions were 8 to 12 percent, and some even more! Why would the banks and brokers oppose this rule? It shines the light on their nonfiduciary practices of gouging clients with hidden fees.

We do not sell variable annuities or nontraded REITs because they are not in our clients' best interests. We are fiduciaries.

How can you know for sure that your advisor is a fiduciary? A fiduciary must meet three criteria:

- Independent company: Fiduciaries must be independent and not work for a bank or brokerage firm that tells them what to sell to their clients. Decker Retirement Planning Inc., for example, is an independent company.
- Series 65 license: Their security license is a Series 65 license, which is a fee-only securities license. A fiduciary cannot receive securities commissions and is paid only by fees for advice dispensed in regard to securities. Bankers and brokers are Series 7 licensed,

allowing them to sell you commissionable products—not good when many people are never told about the commissions they incur and the bias those incentives can create.

- RIA: A fiduciary company must be certified as an RIA, a Registered Investment Advisor company, with either the Securities and Exchange Commission or state security authorities.

If your advisor meets these three criteria, then they are in fact a fiduciary. If not, they are not telling you the truth. Sadly, many bankers and brokers tell their clients they are fiduciaries when they are not.

A nonfiduciary advisor might use a one-size-fits-all model. However, when you're heading into retirement, you have different needs from a twenty-five-year-old, for example. We talked in chapter 1 about the asset allocation pie chart that some advisors will offer as what they call a diversification investment strategy. Bankers and brokers appear to customize their advice by having you complete their risk questionnaire and creating an asset allocation plan showing a diversified assortment of mutual funds based on how you answer those questions. Then they have you sign and date an investment policy statement based on that plan, and now you can't sue them if their advice is not in your best interest—because you legally created that plan by filling out the risk questionnaire and signing the investment policy statement.

Look at it this way: if you want a car and you visit a Honda dealership, guess what they try to sell you? A Honda. They won't steer you to the Chrysler dealership

down the road even if they know a Chrysler will serve your needs better.

A fiduciary will never act like a car salesman. The word fiduciary comes from the Latin word for “trust,” and we like to say that a fiduciary is somebody who you can really trust to look out for your best interests.

## **Finding a Fiduciary**

There are three deal breakers when you’re interviewing a financial planner, money manager, banker, or broker as a potential financial advisor. If they suggest any of these topics, you know they are not acting in a fiduciary role.

Deal breaker one is when the advisor pulls out the asset allocation pie chart and uses the rule of 100 to anyone over fifty years old. We talked about that pie chart being a useful tool for people accumulating wealth in their twenties, thirties, or forties, but as you move into retirement at fifty-plus years old, you need a different strategy—a distribution plan.

Deal breaker two is when the advisor tells you that your bond funds are for your safe money. You’ll read more in upcoming chapters about why this is not at all true.

Deal breaker three is when the planner trots out the 4 percent rule. We learned after 2008 that this rule does not work, when millions of people were devastated as

they watched their retirement get nailed.

If your banker or broker is still using any of these models, they are not the right person for your retirement plan. Get up and walk out! It is financial malpractice to use a publicly discredited distribution strategy like the 4 percent rule.

## **Fiduciary Commitment at Decker Retirement Planning Inc.**

At Decker Retirement Planning Inc. we have chosen our firm structure based on operating in a fiduciary capacity. We made that decision. We could have operated as a broker-dealer and taken commissions, but we chose the Registered Investment Advisor (RIA) structure, which requires us to act as a fiduciary. We put this in writing for you: we legally obligate ourselves to act in a fiduciary role and look out for your best interests. We love to serve our clients' best interests! Many times people will come into our office and have a plan that works for them. We don't take them on as clients—they already have the things in place that work for them. We don't charge them for coming to us or try to sell them on a different plan. Instead, we compliment them and tell them to make sure nobody sells them anything.

As fiduciaries, we will always try to identify all your options. We are paid for our overall advice, for the plan. We want you to receive the benefit of the stock market and try to buffer the downside, but we don't make

commissions on stocks or mutual funds.

Now that you know we are fiduciaries, let's move into a discussion of how we put your best interests front and center in building your plan.

## 4

### **Step 2: Create a Distribution Plan**

The income-distribution plan is the beating heart of your retirement. The plan shows in detail how you will use the different assets you've accumulated to generate the income you need and want for the rest of your life. Once this plan is in place, you'll know exactly where your monthly income is coming from this year, five years from now, twenty years from now, and beyond. You may see your capital growing over the long term while your income accounts remain safe and guaranteed. Even your risk accounts may have capital preservation measures.

Wherever you've been saving your money, the day you retire—the day you walk out of the company you've been receiving bimonthly paychecks from—the game changes after you take that last paycheck of your lifetime. You've been in an accumulation mentality. Now you need to switch over to a distribution mentality. How are you going to gather all your assets together and plan withdrawals from them to create a consistent income stream? We like to think of the distribution plan as helping you create a regular paycheck from your assets that you'll receive confidently for the rest of your life.

The income-distribution plan is what helps our clients financially relax and have confidence, no matter what the market did that day!

# The Two Big Questions

We start the planning process by collecting information to answer the two most basic questions of planning retirement: Can you retire and meet your income needs? If you can retire, or are already retired, how much income can you draw so you don't run out of money before you die? Those are the two big questions in retirement!

You're going into retirement. You've got goals you want to accomplish. You've got things you need to pay for. You have hard costs of utilities or possibly a mortgage as well as the soft costs of traveling and charitable gifts.

We answer these initial questions mathematically. First, we have you define your goals and your budget for us. Then we identify all your sources of retirement income. These typically could include Social Security, pensions, 401(k)s, IRAs, Roth IRAs, real-estate rental income, cash, a stock and bond portfolio, and other assets. We optimize your Social Security and examine your pension options. We total all your income sources pretax, and then we estimate taxes. We factor in regular cost-of-living adjustments (COLAs). From there, we can calculate the monthly and annual income for as long as you live, along with your emergency cash set aside for emergencies. Our general rule is to plan that you'll live to age one hundred because this is a statistically liberal estimate. If you do, you are covered.

If not, then you are covered anyway.

Retirement tends to have three stages: travel years, slow-it-down years, and no-travel years. Your travel years are your years for healthy travel. It's very important to know that you're going to slow down eventually. We all do. We ask each person when they think they'll settle down on the porch in the rocking chair—the typical answer is in their eighties. Then we front-load the plan so you have more money during your healthy travel years. We plateau the plan during your slow-it-down years. And we usually spike the final years of the plan for end-of-life health care expenses. Central to our approach is that we plan around how much money, net of tax, you need to retire. How much do you need to pay the bills and include a nice travel and entertainment budget? Some people have the assets, Social Security, rental income, pensions, and so on to make that number; some people don't. If you do, then we have great news—you can retire! If you don't have the assets to generate the income, that's also great news—because you won't make the horrible mistake of retiring prematurely and having to reenter the workforce later. You know how much you want to spend; we'll tell you if you can mathematically retire now, if you need to reduce what you want to spend, or if perhaps you should work for a few more years so you can achieve your long-term goals.

## **An Honest Assessment**

A few years ago, we had a couple come in to see if they could retire. They had about \$719,452 in investable

assets (refer to the distribution plan). They had just come from a meeting with their banker who told them, with their age at sixty-five, they could draw \$70,000 a year from their retirement assets. The couple looked at each other and knew the math didn't work. Let's see, how long would about \$700,000 be able to stand draws of \$70,000? Easy math—only ten years. They knew their banker had zero credibility, so they came to us.

They wanted to know if they could retire or not. We asked them how much income they needed, net of tax, to enjoy their retirement. They said they needed about \$7,000 per month after taxes. We asked how much they contribute to their 401(k) each year, and they said about \$30,000.

Now, this is the cool part! We plugged those numbers into our spreadsheet and found out they could retire in five years. We created a chart to help them retire by showing them how long it would take to get to their required \$7,000 per month, net of tax, with their assets added from their 401(k) and the growth rates on their accounts. Notice in their plan how beautifully logical and refreshingly mathematical our whole approach is to retirement! Few opinions, just math in most cases. We found that this couple could retire in five years based on all their factors and needs.

We like to start our work with people who are about five years before retirement because we can help these clients avoid a common tragedy of taking a major stock market hit right before they retire. If that were to happen, they could no longer retire when they expected.

That happens in the pie chart model that bankers and brokers use. Not for our clients! We are able to greatly diminish the risk of stock market declines destroying your retirement date since Buckets 1, 2, and 3 are all principal guaranteed and the Risk Bucket uses models that are designed to make money in up or down markets.

## **Your Planning Spreadsheet**

We evaluate your situation using our bucket system to create a budget-based plan that focuses on maximizing your income, net of tax. Then we develop strategies for your growth money using two-sided risk models. We put all the numbers into a detailed and highly visual spreadsheet. This spreadsheet contains your entire retirement plan at a glance! All on one page!

Let's walk through this template and explain what each part of it shows. We'll use John and Jane Johnson's spreadsheet as an example.

The left side of the spreadsheet shows your and your spouse's ages and how many years the plan covers (we always plan out to age one hundred). It also shows your total annual income, year by year, as long as you live, from your sources of income like Social Security, rental real estate, or pension as well as the income from your principal guaranteed bucket accounts. We calculate your total income from all sources pretax, and then we estimate taxes and COLAs.

This annual income will come to you in the form of monthly automatic deposits into your bank account. Through these monthly deposits, we're basically re-creating the paycheck system that you are accustomed to from your working years. With this plan, you know what your budget is and you receive your "paychecks" every month.

The middle of the spreadsheet shows your breakdown of individual sources of income (such as Social Security, pensions, real-estate income, portfolio, retirement accounts, and so on). The final column of this section is your cumulative income from assets, which tracks all the money you are drawing specifically from your portfolio bucket accounts, not from Social Security or pension.

The right side of the spreadsheet shows your Buckets 1, 2, and 3; the Risk Bucket; and the account total that includes all of your buckets and your emergency cash. Buckets 1, 2, and 3 hold your safe money—your income money for the first twenty years of the plan—in laddered maturity, principal guaranteed accounts. The Risk Bucket holds your risk, or stock market, money.

If you and your spouse have more income than you want to spend, we can put that money into a legacy column on the far-right side of the plan. Legacy funds are funds that you control all of your life but will probably never spend. These funds are invested differently depending on tax strategies.

Now that you're familiar with what goes into the spreadsheet, let's take a look at how we make the numbers work for you.

# Optimizing Your Income

As we draft the plan, we examine ways to optimize your income. We'll talk in chapter 5 about how we can help you minimize taxes. Here, let's focus on how to optimize your Social Security and pension income.

## *Social Security*

There are thousands of ways to draw Social Security, and one of the first services we provide clients is to run a complimentary optimization report to help identify the best way to draw Social Security for your plan. It's not unusual for the difference between the worst and best ways to be \$100,000 to \$200,000 during the life of your retirement plan. It's a shocking difference! We want you to draw as much money as possible from Social Security on your income plan.

Maximizing your Social Security benefit depends on many factors. Are you single or married? What is your age? Are you divorced? How long were you married? Are you a widower? Do you have a handicapped child? And so on and so forth. We consider many inputs to find out the best strategy to maximize your benefit.

If you're a married couple, we'll talk with you about the file-and-suspend strategy, the magical path for a couple to optimize your Social Security benefit, and we will use the sample clients John and Jane again. Jane has the ability to take a spousal benefit and delay her own benefits to age seventy if John is drawing his own Social Security benefit at the time. By waiting until age seventy

to take your own benefit, you effectively increase it by almost 100 percent from age sixty-two.

The spousal benefit is also important to the maximization strategy! Let's walk through it very basically. For people retiring in 2023, full retirement age is sixty-seven. If you were born after 1954, your full retirement age increases by two months per year. From ages sixty-two to age sixty-six, your Social Security benefit grows about 5 percent per year. From ages sixty-six to seventy, they grow at 8 percent per year.

If you are working before full retirement age and also draw Social Security payments, you will be penalized for that for W-2 or 1099 earnings above ~\$15,720 for 2023; a dollar will be held back for every three dollars of Social Security paid. However, when you reach full retirement age, Social Security allows you to work and draw benefits at the same time with no income limit. To see the latest guidelines on Social Security benefit withdrawals while working, visit [www.ssa.gov/planners/retire/whileworking.html](http://www.ssa.gov/planners/retire/whileworking.html).

Another interesting fact is that you can take advantage of spousal benefits as a widow or widower, or from an ex spouse. If you were married for ten years or more to your ex, you are entitled to spousal benefits from that marriage. You can start collecting these benefits at any time, as long as your ex is age sixty-two or older. The ex-spouse doesn't have to file or give permission. This will not affect their benefits in any way, even if they are remarried, even if you remarried, and even if your ex has died and you have remarried.

We check all this out for you as part of our complimentary Social Security optimization report. The file-and-suspend strategy can provide a lot of extra Social Security income!

### *Pension*

We're often asked the following common questions about pensions: Do I take the lump sum of my pension, or do I take survivability or single life? At what age should I begin drawing benefits? We'll help you optimize this based on your assets and income goals. Let's take an example of someone who is sixty-five and has a choice of \$250,000 for life or a lump sum of \$200,000. There are some definite pros and cons to each option, but we tend to advise the lump-sum option.

There are three reasons why we favor the lump-sum option:

- **Return:** The lump-sum option gives you the opportunity for a higher return. For example, if Harold takes a \$200,000 lump sum today at sixty-five, invests with a 3 percent return, and lives to one hundred, what does he have if he never pulled any money out? \$562,772.49. Now, let's compare that with the pension option. Let's assume the actuaries say that a sixty-five-year-old male will typically have twenty years of remaining life. So, let's take \$250,000 divided by twenty years, and Harold gets \$12,500 per year for life. Let's say Harold lives to age one hundred so we can compare apples to apples. That's a total of thirty-five payments of \$12,500, or \$437,500 in total payments to age one hundred. The pension option left \$125,272.49 on the

table. The lump-sum return is a better option based on return.

- Estate Risk: Let's imagine that a week after retirement, tragedy strikes Harold and his wife when he is killed in an accident. If they had taken the lump sum, those assets of \$200,000 remain in their estate and will be passed on to their beneficiaries. However, the couple who chose the pension is out of luck. Pension payments stop after both husband and wife are dead. Estate risk favors a lump sum.
- Company risk: Whoever chooses the pension option assumes company risk, or the risk that the company may not be able to pay the pension for the rest of their life. The pilots of Pan Am didn't fare so well when their pensions were slashed after Pan American World Airways went bankrupt. The lump-sum option removes company risk.

So why would anyone take the pension option? Just one reason that we can think of: peace of mind. Some people are not worried about estate risk or company risk and feel the return on their money is less important than the peace of mind in receiving a check each month. If the check is from the US government or a major company such as Boeing, then someone might not be worried about company risk and just wants that check to come each month. For a small number of people, we recommend this option for that one reason: emotional peace of mind when people want no part of investment exposure.

## *Qualified and Nonqualified Assets*

The division of assets between qualified and nonqualified is very important in our planning.

Qualified money is in retirement accounts such as IRAs, 401(k)s, Roth IRAs, and SEP IRAs. These are all retirement accounts that are allowed to grow tax-deferred, and the Roth IRA grows tax-free. The SEP IRA is useful for small business owners and allows them to put larger amounts away each year. The 401(k) is a retirement account where companies allow current employees to contribute a percentage of their salary to their retirement. Some companies also provide matching funds to help employees save for retirement. Regular IRAs allow people to contribute to their IRA retirement account. Money that goes into any of these accounts has not yet been taxed.

Nonqualified money is already-taxed money that is held in individual banking accounts, joint accounts, trust accounts, and so on. When you take \$1,000 out of your Bank of America savings account, for example, you were taxed on that money before you deposited it, and you do not owe any taxes on that withdrawal. However, when you take \$1,000 out of your IRA—receive an IRA distribution—you will be taxed on that withdrawal, or distribution.

When a client has a million dollars all in IRAs, it's difficult for us to do tax planning, because all of that money has yet to be taxed. The other extreme is when a client has all of their money as nonqualified, already taxed—we love that, because we can create an income

stream in which the majority of your income for the first twenty years is nontaxable.

Typically, in our plans, we see a split of about 60 percent of assets in retirement accounts (qualified), and 40 percent in nonqualified accounts. We put the already-taxed, nonqualified money in the front of the plan so that in the first twenty years, the majority of your income is tax-free, because it is already-taxed principal. We put the majority of the not-yet-taxed, qualified money in retirement accounts in the back of the plan so that money is going to grow longer and have the benefit of tax deferral.

Also, we'll plan to convert some of that qualified money from an IRA to a Roth for your Risk Bucket account. Roth dollars are what we call "for later on" dollars, for when you're in your eighties or nineties. No one knows what tax brackets will look like then. We want those Roth IRA dollars to grow as long as possible tax-free. Roth accounts grow tax-free, distribute income back to you tax-free, and pass on to your beneficiaries tax-free. We love Roth IRAs, but their benefits are lost on accounts that are too short term or don't have high enough growth rates. Our planning lets us know how much should be converted. Anything more than that is a waste of taxes paid. We convert IRAs to Roth IRAs in the Risk Bucket only. The tax-free growth would be wasted on Buckets 1, 2, or 3 since those accounts distribute income back to you in the first twenty years. The account we'd use for the Risk Bucket has the fastest growth rate and the longest term, making it perfect for the Roth IRA to grow tax-free.

The result is that from years one through twenty of your retirement, you have the maximum tax-free income. For years twenty-one on, you receive tax-free Roth distributions and you don't have to worry about required minimum distributions (RMDs), which are the required minimum amounts that must be drawn and taxed as income when you are over seventy and a half years old. We automatically included those in your income stream so it's never a worry. People in retirement get very stressed about RMD payments since the IRS penalty for under distributing is 50 percent!

Learn more about the Roth conversation strategy in chapter 5, "Minimize Your Taxes."

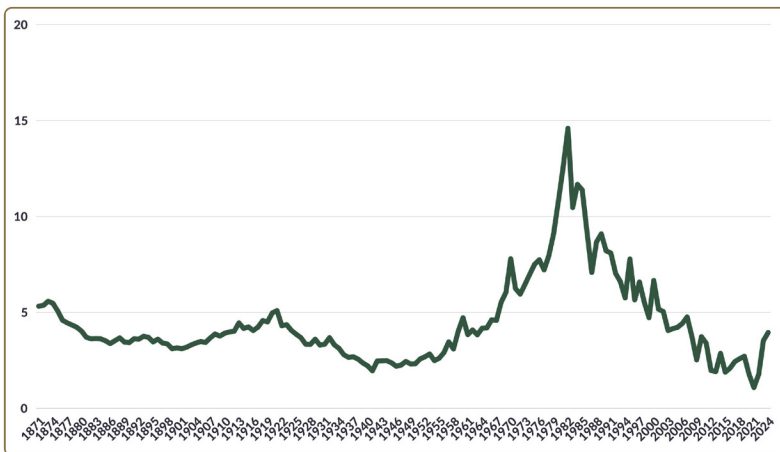
# Your Portfolio Income: Safe Money and Risk Money

Let's talk about how your portfolio could generate income. We believe you should have guaranteed safe money as well as risk money.

Recall that a lot of asset allocation plans using the rule of 100 will tell you that your safe money should be in bonds or bond funds, earning next to nothing and exposed to interest rate risk at a record high. As you know, this makes no sense to us.

Remember when bond funds got hammered in 1994 with the ten-year Treasury yield going from 6 to 8 percent? The average bond fund lost about 20 percent that year. In 1999 when the ten-year Treasury yield went from 4 to 6 percent, the losses were around 17 percent.

## 10-Year Treasury Yield



Source: Yale, Federal Reserve, Y-Charts  
As of January 2024

The ten year treasury yield bottomed in August 2020 at 0.47%. It rose over the next couple of years to over 3%. That represented a drop of about 30% in principle during that period. —and that, ladies and gentlemen, is on what banks and brokers call your “safe money.”

We want to jump up and down and emphatically state that your bond funds are not safe when interest rates are at a low! When interest rates go higher, you will lose money in your bond funds. It’s a terrible risk for people who are getting ready to retire or are already in retirement. Let’s say Carol is getting ready to retire and has money in a 401(k). If bond funds are down 20 percent, it takes a while to recover.

If Carol has been planning to do withdrawals from those accounts to create an income stream, she’s now withdrawing from an account that is declining in value at the same time. Imagine the perfect storm of stocks going down, interest rates rising, bond funds going down—everything is going down in her portfolio, and on top of those losses, she accentuates the problem by withdrawing income from it. There is a great Barron’s article from 2016 with one of the brightest bond fund managers in the world, Bill Gross. He makes several points:

- A reversion to more normal long-term interest rates will result in a significant loss of principal to bond investors.
- With long-term interest rates at 5 percent, bond investors’ potential for price appreciation is significantly limited.

- Large increases in the money supply will result in higher inflation and ultimately higher bond yields.
- The bond market is being artificially manipulated by the federal government, but all manipulation is ultimately unsustainable.
- As sovereign debt concerns spread west, investors will demand higher yields as they realize United States Treasuries are not risk-free in real terms.
- Bonds are typically the worst performing asset class in periods of higher inflation.

Gross has expressed significant concerns regarding the expected return bond investors will receive in the coming years.

Notice that Gross is saying that you are not currently getting paid for the risk you are taking, that what the Federal Reserve is doing is not sustainable, and that interest rates will eventually be going higher. We agree.

Why do we think rates will be going higher?

There is a very close relationship between the monetary base—which is the money supply, or what the Fed prints and puts in circulation—and the consumer price index (CPI). The Fed started to print what used to be a lot of money from 1960 to 1975. There was a lag, but eventually the CPI took off and interest rates and inflation skyrocketed. It took Paul Volcker, the cigar-smoking chairman of the Federal Reserve at the time, to get in front of all of that and bring rates back to normal...

until the hockey-stick spike of 2008 when we printed a lot of money via TARP, QE1, QE2, and so on.

We've been advising many clients like Carol that when you are ready to roll over your 401(k), instead of utilizing bond funds, utilize a stable value choice in your 401(k). That stable value fund will not lose principal as rates go higher. Stable value is a guaranteed investment contract (GIC) designed not to lose value when interest rates go up.

You can also ladder your bonds—municipal bonds, corporate bonds, CDs, and so on—using a laddered maturity strategy. Let's say that you want \$100,000 as safe money. You split that into seven equal parts. Invest it one-seventh of it in a one-year maturity, one-seventh in a two-year maturity, on out to seven years. Seven years captures the majority of the yield curve: the difference between the seven-year CD and a thirty-year CD typically is not very much. When the one-year CD matures, you would reinvest it into a seven-year CD. When the two-year CD matures, you would reinvest it into a seven-year CD, and so on. If interest rates are decent, you live off the interest.

If interest rates do climb back up, with a laddered method, you can walk that interest-rate curve up to your benefit. You can take advantage of higher interest rates when they come due through reinvestment at the higher rate. If interest rates are flat, you still benefit with a bond ladder because you're getting rid of short-term rates and reinvesting seven years every single time.

However, the major problem with a bond ladder is that you can't live on the interest when rates are low. You'd have to take part of your principal to survive, and a bond ladder falls apart when you start to spend the principal since you have less money earning interest.

When it comes to putting your portfolio together, we agree with other financial professionals that you should have some money on the safe side and some risk money.

The best way to do this, in our opinion, is to use the bucket system. It's also a laddered system, but with a different philosophy and approach. Let's look at the interest on those buckets.

First you fund Bucket 1. It earns a small amount of interest but has enough of a balance for you to draw monthly income for the first five years. The majority of that income for the first sixty months is principal. That's okay! It gives the higher-returning Buckets 2 and 3 and the Risk Bucket five years to grow and compound, in many instances more than offsetting the income that you drew for the first five years. Bucket 2 is a ten-year account, and Bucket 3 is a twenty-year account, both with higher rates of return than Bucket 1.

Buckets 1, 2, and 3 are your no risk money that will generate income for the first twenty years of your plan. They are non risk because they are principal guaranteed accounts. This is critically important and a part of our signature approach to designing income plans. We want you to take income from an account that is not fluctuating, has no stock market risk, and has zero

interest-rate risk. You will keep every dollar you put into a principal guaranteed account. Then you may have some gains on top of that.

Your Risk Bucket is money that fluctuates due to stock market exposure. That's money set aside for the twenty plus-year mark. At the end of twenty years, we re-ladder your portfolio in order to maintain your income coming from principal guaranteed accounts.

## **Principal Guaranteed Accounts**

The options for principal guaranteed accounts—your safe money in Buckets 1, 2, and 3—are as follows:

- Municipal bonds
- Corporate bonds
- Utility bonds
- Government bonds
- Certificates of deposit (CDs)
- Equity-linked CDs
- Fixed annuities
- Equity-indexed accounts
- Savings accounts
- Personal pensions
- Life insurance

We want to define these for you, share the advantages and disadvantages of each, and tell you how we use them.

### *Municipal Bonds*

Municipal bonds are backed by municipalities (cities and states) and generate tax-free interest that comes to you over a fixed period of time. This is a particular benefit if you're in a higher tax bracket. However, credit risk—the risk that you might not regain your entire principal—is significantly higher for municipal bonds after 2008 Great Recession and the 2020 pandemic because forty-nine out of the fifty states have taken on pension obligations they can't possibly pay back, in our opinion.

If you already own municipal bonds, we will help you make a good, educated decision about whether they are a keeper for your portfolio or you should sell them. We will also take a look at what is backing the municipal bond. Is it one specific project, or a revenue bond? Revenue bonds are at much higher risk than a general-obligation state bond or a municipality city bond. General obligation bonds hold their value better because they are backed by the taxing power of that municipality. People would have to walk away from the equity in their homes to not support that bond.

Price is the best indicator, in our opinion, of whether your bond is healthy or not. In a low-interest-rate environment, the price of your municipal bonds in your monthly statement can give you a very important warning on what you should do with your municipal

bonds. If you have a 3, 4, or 5 percent coupon municipal bond, it should trade above par, which is \$100. If your bond with a 3, 4, or 5 percent coupon dips below par, that means the market's confidence in that bond's ability to pay back principal is going down. Traders with a lot more information than you are selling their positions in that bond for an important reason—they believe that bond will not be able to pay back principal at maturity.

We have been advising people to sell their bonds if they broke par for many years now, since 2008. A few years ago, Puerto Rico bonds started to break par. We advised people to sell. Some called their bankers or brokers asking why their bonds had dropped in price. The people who had sold them the bonds defended them by saying all was well.

Now it is clear, with hindsight, that Puerto Rico is broke and many of those bonds are compromised and trade at \$0.30 on the dollar. Remember, this is your safe money! You don't want to put it in risky situations like this. Bonds in New Jersey, New York, Detroit, and many California cities are breaking currently. We hope you look at your bond prices and sell those that have broken the \$100 price.

There will be a day of reckoning, in our opinion, for the debt that many municipalities are responsible for. Just like an individual who goes through Chapter 7 or Chapter 11 bankruptcy must reorganize debt, municipalities will need to take the same road, and we do not want our clients involved.

## *Corporate Bonds*

These bonds obligate the corporation to pay a fixed rate of interest over a fixed period of time. Corporate bonds are like municipal bonds, but they are taxable, whereas municipal bonds are tax-free. If we use corporate bonds, we look for strong AAA-rated corporate bonds—the Microsofts and GEs of the world that have billions of dollars in cash.

## *Utility Bonds*

Utility bonds obligate utility companies to pay a fixed interest rate over a fixed period of time. They're regarded as stable because people are going to be using power and their energy bills are going to be paid.

## *Government Bonds*

Treasury bills, Treasury notes, and Treasury bonds are all guaranteed by the US government. These bonds are very low risk because the US government is obligated to pay a fixed rate to investors over a fixed period of time.

## *Certificates of Deposit (CDs)*

CDs are issued by banks and insured by the FDIC. They pay out at a fixed rate. This is what we call an assumed guarantee. There's no actual money in the FDIC. Rather, the CDs are backed by the taxing power of the United States government, via taxpayer, on an as needed basis, to bail out banks and to provide depositors confidence that a crisis will not result in runs on banks. We like CDs and have used CDs before. We just need

rates to go higher before we recommend them to retired clients again.

### *Equity-Linked CDs*

Equity-linked CDs are also issued by banks but pay a variable rate linked to the performance of the S&P 500, or the appropriate index. These are called equity-linked CDs if they are issued from a bank and equity-indexed accounts if they are issued from an insurance company. Your principal is guaranteed, and you get a portion of the stock market index when the market index goes higher.

### *Fixed Annuities*

Fixed annuities are like CDs, but they are issued from insurance companies and pay a fixed rate over a fixed period of time. We like them because they are very transparent—you know exactly what you're going to get.

To put this into perspective, let's look at other kinds of annuities. Variable annuities are a high-commissioned product with high recurring fees, causing underperformance in up markets, and they offer zero downside protection in down markets. We have never purchased them for our clients, and we warn people to stay away from them. Income annuities, life annuities, and income riders involve paying an insurance company to give you your own money back, and they hope you die soon so they don't have to give you all of it back. Variable annuities are not principal guaranteed, we don't like them, and we do not use them in our practice. Nor do we use income annuities, life annuities, or income riders,

which is where you are paying an insurance company to get your own money back.

Fixed annuities are the only kind of annuity we use at Decker.

### *Equity-Indexed Accounts*

Equity-indexed accounts are also offered by insurance companies, but they pay variable rates linked to the performance of a stock market index like the S&P 500.

We should clarify that this is not the same thing as the variable annuity mentioned above. A variable annuity is not a principal guaranteed account. Whereas the term variable rate in regard to equity-linked CDs and equity-indexed accounts means that if, for example, the S&P 500 goes up 7 percent, you might get 5 percent interest credited to your account, but if the S&P 500 goes down, you lose nothing. You have 0 percent interest credited to your account, but you do not lose a dime of your principal guaranteed accounts. We like these and use them in our practice where appropriate. If the markets go higher, these make money. If the markets go lower, these don't lose a dime.

### *Savings Accounts*

We've used savings accounts in the past as principal guaranteed distribution vehicles. They work well when interest rates are up. With savings account returns pretty much stuck at zero, however, we do not use them currently.

## *Life Insurance*

We believe that life insurance is better used for asset protection rather than investment, and we'll take a closer look at this in chapter 6, "Protect Your Assets." Whoever tells you that cash value is a good investment is selling you insurance, although there is one exception in which you can use life insurance to grow nonqualified money and have a tax-free income. Some of our younger clients like the option of using life insurance to accumulate cash and then take loans from it later in life because that's tax-free income to them. This is great for high-income earners who are already maxing out their other tax-free options.

## *Principal Guaranteed Accounts Overview*

Principal guaranteed accounts are the engine of your retirement income! Whether they are fixed rate or variable rate instruments, as long as they are principal guaranteed, you never lose a dime of your money. Even a stock market crash is not a retirement-altering event. You may not make money that year, but you won't lose any either. We believe the most important part of your distribution plan is making sure that stock market crashes, inflation, death of a spouse, and other unforeseen events do not destroy your retirement plan.

See chapter 7, "Reduce Your Risk," for more information about how we help you make decisions to manage portfolio risk and other kinds of financial risks as well.

## Testing Your Plan

Once we've worked through the strategies to provide the annual income, net of tax, that you want and need in retirement, it's time to test the plan to make sure it's solid. We hammer it with the biggest problems we see in retirement to make sure you're protected against the following unforeseen events:

- Inflation
- Death of a spouse
- Stock market crash

Each scenario involves considering what the financial effect could possibly be and reworking the math for each worst-case scenario to try to ensure your retirement will still be secure.

### Inflation

Inflation, typically, is the number one enemy to retirees because what you lock in for a net-of-tax income today needs to still be enough twenty years from now. We try to make sure that inflation protections are in place for you using cost-of-living adjustments (COLAs), any expected inheritance, and any appreciating properties like real estate. We always try to underestimate asset

appreciation and be conservative in our Risk Bucket growth assumptions in order to build in layers of protection. Our hope is that fifteen or twenty years down the road, you are still confident in receiving a comfortable income.

From 2011 to 2020, the CPI average was around 2.5 to 3 percent. We want our cash-flowing clients in distribution planning to have some protection for inflation, and one of the ways we do that is with a COLA, a cost-of-living adjustment, in which you get a little more income each year for the rest of your life. We do not put the primary COLA on your pension or Social Security because we do not control those. Instead, we put COLAs on income from assets, the money coming out of your laddered maturities in Buckets 1, 2, and 3. The cost-of-living increases at an average of 3 percent per year, so every five years, we target a 15 percent increase (five years times 3 percent) in the amount of money that you are drawing from your portfolio. We smooth it and front-load it so that every year, you have a little more money coming from your portfolio in your healthy travel years.

We do show a very slight COLA in Social Security. Currently we calculate it at 0.5 percent, which has been the average from 2011 to 2020. But because the rules keep changing on COLAs for Social Security, we do not like to base too much of your adjustment in this area.

If you expect an inheritance, we schedule that as part of your inflation protection. If you have rental real estate, we know that hard assets do very well in inflation, and you have equity protection with the appreciating

real estate as well as COLAs for your rental income. We also make sure to take into account that most people want to downsize their real estate once they're in their late seventies and are no longer interested working in the garden or going up the stairs. That downsize has you selling your home at X dollars and buying a condo at Y dollars. Usually, X is larger than Y, enabling a capital injection into your plan. Then we look at your Risk Bucket, or your growth account. The current managers of the growth account have averaged about 16 percent returns since 2000, net of fees, and yet we plan with a conservative 6 percent return, allowing for extra to be there in twenty years when you need inflation protection.

The bottom line is that we try to make sure there's plenty of extra money twenty years from now so you don't have to worry when it comes to inflation. There are many hedges in place.

## **Death of a Spouse**

We also address, with married couples, how much income is lost at the death of the first spouse. Here are two extreme examples of this situation.

In the first extreme, Connie is a homemaker and stay-at-home mom whose kids have been raised. Now she's enjoying retirement with her husband, Rick. He has a pension of \$75,000 a year. They have assets of \$1.5 million. They're drawing Social Security in the file-and-suspend strategy that we use for our clients. However,

Rick has no life insurance, and there is no survivability on his pension, which means that when he dies, the pension stops.

They have a wonderful retirement as long as Rick is alive. Connie has significant financial risk in the event that Rick predeceases her and leaves her with an income stream far less than what she had planned for. In this case, we make sure they put life insurance in place on him to protect her. We also calculate how much Connie would draw without Rick's pension, and if it's not enough, we calculate how much income is lost and how much insurance is needed to replace that income.

On the other extreme, both Terry and Julie have been working. They both have Social Security, they both have small pensions, and they both have assets. Even though emotionally they would be devastated to lose the other, financially there is only a little dent. The only loss to either spouse is the smaller Social Security payment. When one spouse dies, the surviving spouse gets to choose to receive the higher of the two Social Security payments, but not both.

Those are the two extremes. We see everything in between. It's our goal to make sure that both you and your spouse know that, if one were to lose the other, the surviving spouse would be okay financially.

# Stock Market Crash

Historically, the stock market seems to crash every seven to eight years. The devastating drops of around 40 percent are life changers for people in retirement since those large losses reduce how much money retirees can draw from their portfolio and still have enough left for the rest of their lives. Stock market crashes, in our opinion, are the number one reason people have to go back to work, sell their home, or move in with their kids.

One safeguard we have against this is that our clients do not draw income from fluctuating accounts. If you draw income from fluctuating accounts, you compromise the gains as the markets go up and accentuate the losses as the markets drop. You are committing financial suicide by doing that. Our clients draw income from principal guaranteed accounts that do not lose any money when markets drop, so our clients have no stock market risk on their income buckets.

However, our clients usually have some risk money invested in the stock market. The way we try to minimize the risk is to invest these funds into mutual funds and managers that are using strategies designed to make money in up or down markets. It is a two-sided strategy used in a two-sided market that goes both up and down. Your risk accounts could make money in a down market!

## Putting Money at Risk

After we consider a variety of worst-case scenarios to test the plan, the next question we ask is whether it is necessary to take risk to accomplish your goals. Is it necessary to have any money in the stock market?

About 10 to 15 percent of the clients we see are people with a combination of bigger estates and smaller retirement needs. If you are over sixty-five and have a larger estate, perhaps \$2 million or more, and you only need \$70,000 or \$80,000 annually, you may very well be in a position to take that from a combination of assets (Social Security, pension, and rental real estate, for example) without really needing to take risk in the stock market. It's a priceless option to some people to go through retirement for the rest of their lives with no stock market risk or exposure.

We ask you this question to assess your openness to risk: Would it bother you more to be out of the market and have it go up to 30 percent, or to be in the market and have it go down 30 percent? This is a very personal question, and we find clients split about 50/50 on it. Sometimes people say they don't want risk now because of their horrific experience in 2022. It's not uncommon for us to hear, "I couldn't sleep. I thought my whole life was over. I thought I was going to have to work forever. Now that I'm retiring, I don't want to go through that again. I want to put my money in the safe investments that I can count on and not have to worry about it."

We'll work with you to determine your tolerance

for risk and to identify how much risk you might have to take in order to meet your income goals. Even if you have a smaller estate, perhaps only \$300,000 to \$400,000 in assets, you can still develop a risk-free plan. It depends on your budget, how much you spend each month. Using Social Security and a combination of income from your portfolio, income from rental real estate, and income from your pensions and fixed interest accounts, can you live on that total income? If so, no need to have risk assets in your portfolio.

On the flip side, if clients have a small amount of assets but insist they need a larger amount of money from those assets without any risk, we show them the calculations and walk them through the reasons why they need some risk in order to meet their goals. We allocate money into the different buckets with their rate of return and show them how much they need to have at risk in order to grow their money for what they need. It's just math!

Typically, we believe that someone in their mid-sixties with \$1 million should have about 20 to 25 percent at risk. That means that 75 to 80 percent of their money is not at risk. That's the income for the first twenty years of retirement. When the markets go down, Buckets 1, 2, and 3 do not drop.

The Risk Bucket—your growth money, your twenty-year risk money to be used at age eighty or eighty five and above—uses the two-sided market strategy with two-sided risk models. Your principal in the Risk Bucket is not guaranteed, but since 2000, these models did not

lose money (combined) in the market's most difficult years (2000, 2001, 2002, and 2008 and slight drop in 2022). In fact, many clients may experience growth in their portfolio when the markets go down because the two-sided risk strategies we use are designed to minimize stock market risk to your growth money.

## **John and Jane Johnson**

Now that you understand how the plan works in general, let's look at John and Jane Johnson's plan again in more detail.

John and Jane came to us when John was seventy and Jane was sixty-nine. They asked the two biggest questions in retirement: Can we retire? If so, how much money can we draw so we don't run out of money before we die?

John and Jane began with a little over \$1.4 million in investable assets in this sample plan (\$1,425,088). The spreadsheet shows they were both drawing Social Security. John had a pension. They had income from their portfolio (what we call income from assets). They did not have any rental real estate.

Their total income combines money they were pulling in from assets plus Social Security plus pension. This includes the \$25,000 that we set aside in a money market account for their emergency cash.

When we began optimizing their income, the first

thing we did was build in a COLA. Every year we give John and Jane a 3 percent increase in the amount of money they are drawing from their portfolio to cover the average annual inflation rate. We smoothed this increase so they have a little more money coming from their portfolio each year in their early retirement years, or their healthy travel years, as we call them. We factored in the very small 0.5 percent COLA in Social Security.

We also looked at John's pension options and determined the best way for him to take his pension was in a lump sum to be invested. (For more on pensions, please refer to our pension analysis on page 90.)

As we drafted the plan, we arranged for John and Jane to retire at their current ages and figured out how much they could draw each year, including annual COLAs, before their balance zeroed out at age one hundred. For John and Jane, it was just below \$100,000, net of taxes, and would grow as we allowed for COLAs up from there.

We remember John and Jane looking at each other and saying, "Gosh, we can do this. We have a paid-off home. We only need \$80,000 per year to meet our needs, so if we can get almost \$100,000 after tax, we can do this!"

Using the bucket system, we were able to show John and Jane how their money would be allocated to generate their after-tax income each year.

Their Bucket 1 account is funded with \$225,720. Bucket 1's job is to pay that money out over five years.

After five years of paying out Bucket 1's assets, Bucket 1 is empty.

But look at the Cumulative Income from Assets column of the spreadsheet. It shows John and Jane have drawn \$230,559 from their portfolio after five years. You would think that after Bucket 1 distributed \$230,559 by year five, there would be a big hit to their total balance. Wrong! Take a look at the Total Projected Cash Balance column. They started with \$1,425,088. At the end of five years, they have over \$1,484,284. They actually made money in five years while they drew out \$230,559! How is that possible?

That's the beauty of the laddered maturities bucket system! John and Jane were withdrawing from a low-interest-rate account for the first five years while giving the higher-earning accounts (Buckets 2 and 3 and the Risk Bucket) more time to compound at higher rates.

At the end of five years, Bucket 1 is gone and Bucket 2 matures, shifts over, and produces income for years six through ten with COLA increases.

At the end of ten years, Buckets 1 and 2 are gone. John and Jane have drawn \$549,778 in principal, and look how their projected account balance has actually grown! It started with \$1,425,088, and at the end of ten years, it is almost \$1.5 million!

This is what laddering is all about. Bucket 1 is something like a 1 percent money-market account. Buckets 2 and 3 have averaged around 7 percent per year for the last sixteen years, but we wanted to be

conservative and just show 3 percent and 4 percent returns, respectively. Bucket 2 grows for five years and then pays out over five years, which is years six through ten. Buckets 1 and 2 are gone after ten years; during that time, Bucket 3 is growing at 4 percent per year, and the Risk Bucket is growing at about 6 percent.

At the end of ten years, Bucket 3 matures, shifts over, and provides income for years eleven through twenty, with COLA increases. In year fifteen, we re-ladder and create a new bucket from the assets in the Risk Bucket to fund the last three 5-year segments (in other words, 15 years) of John and Jane's lives.

## **The Bucket System for You**

This bucket system, with the first twenty years of income from principal guaranteed accounts and growth from laddered maturities, could give you peace of mind. Having the income-distribution plan in place could assure you that the income you're taking is the correct amount to cover your costs and last as long as you live. To be able to see where your income is coming from until you're age one hundred is priceless! Plus, there is no interest-rate risk, since these are not bond funds.

Finally, and most importantly in our opinion, we have removed stock market risk from destroying your retirement income for the rest of your retirement! The stock market has a pattern of crashing every seven to eight years since the 1920s. If you retire at sixty-five and

live twenty-five years in retirement, that means you will need to endure three or four stock market crashes like 2008 's. Are you able to handle those hits in retirement? Our clients can because of the laddered principal guaranteed accounts of Buckets 1, 2, and 3.

Now that you understand the basics of the income-distribution plan, let's move into discussion of the expertise we provide to help your plan be as secure and seamless as possible.

## 5

### **Step 3: Minimize Your Taxes**

The third step of your plan is to implement a tax-minimization strategy.

It would be a tragedy to put together a plan where you're just ignorantly, or even knowingly, unnecessarily giving assets away to taxes. Our goal is to help minimize taxes as much as possible, everywhere in your plan. That's why we have a four-part strategy to help minimize the taxes you pay over the lifetime distribution of your retirement income.

#### **Part 1: Form 1040 Interest and Dividends**

We begin by looking at your IRS Form 1040, lines 8 and 9. This is where you show income from interest and dividends.

If you have a lot of nonqualified assets, meaning non-retirement assets, and you've got \$300,000 or \$400,000 in mutual funds with reinvested dividends, capital gains, and interest, and every year you're paying tax on a lot of money that you're not receiving as income. You never even see that money, and yet you are being taxed on it.

This is an inefficiency that we correct in one of two ways. Either we stop reinvesting those funds and take the money as income, or we move those reinvesting mutual funds to qualified retirement accounts such as IRAs, SEP IRAs, or Roth IRAs so you continue to get the benefits of reinvesting but without being taxed every year.

Our goal in your plan is that you only pay taxes each year on money you spend. This simple fix saves many clients \$3,000 to \$5,000 in taxes every year.

## **Part 2: Roth Conversion Strategy**

This is typically the biggest tax-saving strategy in your lifetime!

Trick question: Would you be happy with us if we grew your Risk Bucket IRA from \$372,928 to \$1.2 million over twenty years?

For tax reasons, the answer is no, because it means that in your mid-eighties you'd have required minimum distributions that would put you in the top tax bracket for the rest of your life. We would have failed in a major way in the planning if we allowed that to happen. You could have asked us, "Why didn't we pay taxes on my IRA at \$372,000 instead of \$1.2 million?" and we would not have any good answers.

A better way is to move that money slowly and carefully, over a five- to seven-year period, from an IRA to a Roth.

You have to pay tax on the money at some point. The essential question is, would you rather pay tax on \$372,000 or on \$1.2 million? The answer is you'd rather pay it on the smaller amount. So, we take a specific amount of the IRA money, convert it to a Roth, paying taxes on each conversion over five to seven years, and then grow that money in the Roth. By the time you draw income from these assets twenty years later, that income is tax-free.

The Roth conversion process is easy. At the end of each year, we call you and ask where you are on your income for the year. We look at your tax bracket, and without raising your bracket, we convert what we can from your IRA to a Roth. Now your money in the Roth can grow tax-free, and when it comes out, it's distributed tax-free.

We do not use the Roth conversion strategy on Buckets 1, 2, and 3 because those returns are much smaller and those assets are going to be used sooner. This is a very specific strategy for the Risk Bucket, your long-term money.

Do you see how well this works in concert with the two-sided risk models that your Risk Bucket money is invested in? We try to make sure that a distribution from your IRA does not raise your tax bracket. Every year we move more and more money to your Roth so that over five to seven years, it's ideally all tax-free.

There's another perk to the strategy—there are no required minimum distributions on Roth accounts. Also, your family can inherit a Roth tax-free, although the heirs

have to take distributions from the Roth, based on their life expectancy, according to specific percentage IRS guidelines.

In our opinion, the Roth conversion strategy is a six-figure tax-saving strategy and offers the biggest tax savings for most of our clients. Simply put, there is a big difference between paying tax on \$372,000 and \$1.2 million.

### *Strategies to Increase Roth Contributions*

You've been allowed for many years to contribute to your 401(k) with pretax dollars. We recommend that if you have a Roth 401(k) option, use it.

The difficulty in Roth contributions is that there are income restrictions. For example, if you're age fifty or older, married, and as a couple made more than \$183,000 for 2015, you cannot contribute to a Roth. If you're single, you cannot contribute to a Roth if your income was higher than \$116,000.

If you are like our clients who are in their fifties or early sixties, working, have a bunch of already-taxed nonqualified money in savings, and are trying to figure out how to get more money into a retirement plan, we advise that you systematically move that money from savings into your 401(k)—by maximizing your 401(k) contributions and matching at work. The company-matching contribution in your 401(k) is free money from your employer.

This will change your cash flow. Think of it as using money from savings to help with the cash flow

while your paycheck gets very focused on maximizing your 401(k) contributions.

You can only contribute \$24,000 pretax money annually to your 401(k). But if you are over fifty, you can contribute to your 401(k)—and this is the drumroll—up to a total combined annual contribution of \$59,000. Most people don't know about the catch-up provision.

We tell our high-income earners to make that \$24,000 contribution before tax. It's a significant tax saving for you during your high-income years when you're in a high tax bracket. Take advantage of that tax saving. But if your 401(k) administrator allows after-tax contributions, take advantage of that too and get all the way up to the \$59,000 per year. All that money is going in after tax and then will be rolled over to a Roth IRA upon retirement—into your Risk Bucket, where eventually you'll draw it as tax-free income.

Another way to get money into a Roth, if you make too much money to contribute directly, is to contribute \$6,500 to a traditional IRA but without taking the tax deduction. Don't write off the IRA contribution on your tax returns—you can't take the deduction because you make too much money. However, you can immediately convert that taxable IRA over to a Roth—even the next day. We call that the backdoor IRA-to-Roth conversion.

## Part 3: Estate Tax

We want to help minimize tax applied to the transfer of assets to your heirs after your death—estate tax. We can help minimize the impact of estate taxes on your heirs. Estate taxes are levied by both the federal government and some U.S. states. The federal estate tax exemption is significantly higher than the exemption in many states. For example, an estate valued at \$10,000,000 would likely only be subject to federal estate tax if you reside in a state with a lower exemption threshold. We can help you develop strategies to reduce your estate tax burden, considering your location and the size of your estate.

There are two philosophies on estate tax. One is, “Gosh, I’m not going to pay money out of my income stream now just so my children receive more money from me through inheritance. Whatever they get net of the estate taxes is more than I ever got.” That’s one philosophy. A lot of smart people feel that way about their assets.

The second philosophy goes like this: “I would roll over in my grave if I knew I would pay taxes again after I die, when I’ve spent a whole lifetime paying taxes. It’s not about my kids getting more—it’s about minimizing my taxes.”

We see both sides. Most people don’t want to pay a tax. They want to have their loved ones receive their estate, or have a charity receive part of the estate, but it’s a sticky wicket. When you live in a state that has estate

tax, you have to consider all aspects of your assets that threshold, so your home, home equity, and life insurance can go into your estate calculation. In some states with high home values, it's not that hard to get over the state estate tax threshold and have the state knocking at your kids' doors.

If you have a larger estate and feel you want to minimize your transfer taxes, we can help you plan how to pay money from your income stream to heirs while minimizing taxes. The most common tool is an irrevocable life insurance trust (ILIT), which is held outside your estate, and the premiums are paid by gifted money to your beneficiaries. It is very slick!

Your children or beneficiaries will pay the life insurance premiums with gifted money since the life insurance death benefit, held outside of your estate, is what will pay the estimated estate taxes. Both the parents and the children want to see the estate taxes taken care of with proceeds that come due outside your estate. The life insurance is a second-to-die policy held in a life insurance trust, held outside your estate. The death benefit is paid after the second spouse dies. If the policy came due inside your estate, you would have even more estate taxes to pay, and it would defeat the purpose.

## **Part 4: Income for Large Estates**

We offer clients with estates above \$3 million a variety of tax-preferential strategies to receive their

income. These are strategies we feel our clients need to know about, such as Nevada corporations, family limited partnerships, and foundations. With the multiple options available and pros and cons for each, these situations require custom evaluations to advise strategies.

We help make sure our clients are educated during the planning process about the advantages and disadvantages of these different ways to receive their income, since they can offer a much lower tax on their income.

## **Examples of Tax Minimization in Action**

Let's say that John and Jane have the same \$1.4 million total that we have been discussing: \$1 million (two-thirds of their money) is in retirement accounts such as a 401(k) or IRAs, and \$500,000 is already-taxed nonqualified money in savings or brokerage accounts.

We purposely put this already-taxed \$500,000 in the front of the plan—Buckets 1, 2, and 3. That's because when you draw, say, \$1,000 out of your Bank of America or Chase or Wells Fargo bank accounts—or wherever your savings account is—you're not taxed on it, but when you draw \$1,000 from your IRA, you are.

This is in line with our strategy of drawing principal in the early years of the plan. In the first five years of drawing nonqualified money, your adjusted gross income (AGI) is very small, creating a window to convert money from your IRA to your Roth IRA. Remember,

the goal is to have the income you want and to shrink the taxes as much as possible. When your already-taxed principal comes to you as income, you pay fewer taxes, while your higher-tax-rate IRA money is growing in your Risk Bucket and will be converted to a Roth.

We do layer each of our buckets, so there will be IRA money in the early-year buckets as well as non-IRA money. There is a 50 percent penalty if you under distribute your IRA. For example, if you are supposed to take \$20,000 out as a required minimum distribution for this year and you only take \$10,000, you are charged a \$5,000 penalty. Then you're taxed on the other \$10,000 on top of that. We help make sure that never happens. We want it to be easy for you to take the required minimum distributions after age seventy and a half without that under distribution penalty, so we purposely set up the plan to ensure you get the right amount of income from your IRA in the first twenty years and avoid the penalty.

Now that we've organized John and Jane's \$500,000 of nonqualified (already-taxed) money, we turn to the \$1 million they have in retirement accounts. This is qualified money, not yet taxed. We approach this as long-term money that we will put in the back of the plan— Bucket 3 and the Risk Bucket. The Risk Bucket slowly converts from IRA to a Roth so that in retirement years twenty-one and on, all of that money has been converted using Roth conversions, along with other tax strategies and tax loss harvesting and is tax-free income for the rest of John and Jane's lives.

Now that we have your income plan set and your taxes minimized, let's move on to asset protection.

## 6

### **Step 4: Protect Your Assets**

You've spent a lifetime accumulating assets, and you must have a plan that uses them to maximize your retirement income and minimize your taxes. Now you've got to protect those assets via car insurance, homeowners insurance, life insurance, long-term care insurance, and so on.

We start by looking at what's appropriate for your situation. An umbrella policy is most often of concern to retirees because they already have auto and homeowners insurance. We will touch on the umbrella policy here and then delve into the more complex long-term care insurance coverage options as well. For these and all asset-protecting insurance plans, we educate our clients on their choices and then incorporate their decisions into the plan.

### **Umbrella Policy**

Sometimes mistakes or circumstances arise that cause damage above and beyond a driving error, an accident on our property, or something else superficial. An umbrella policy is a rider on a home insurance policy that covers the homeowner in today's very litigious society. In 2023, it was about \$400 to get the peace of mind of \$1 million in extra liability coverage. We

ask our clients to please make sure they have this very inexpensive coverage to offer an extra layer of protection for all they've worked for in their working years. This is an important part to a worry-free retirement.

## **Long-Term Care Insurance**

One of retirees' biggest risks is that of catastrophic long-term care expenses. How are you going to pay for long-term care if you have an unfortunate, devastating scenario such as a stroke or Alzheimer's? One spouse can bankrupt the other because of health care costs, or if you are single, you can bankrupt yourself. To protect yourself and your spouse, you need to understand the options.

We believe that the most-used option to pay for long-term care is Medicaid—some estimates say as much as 80 percent of long-term care expenses are paid for through Medicaid. However, Medicaid is a public subsidy used when a person runs out of funds, and their bills are paid for by the taxpayer. We do not want you to depend on public subsidies in order to pay for these large expenses when there may be better options for you. We want you to make a plan about how to help protect yourself in the event of long-term care needs and costs. Let's cover your options.

## Traditional Long-Term Care Insurance

Traditional long-term care insurance is the first and most obvious option and has been in popular use for more than twenty years. This insurance operates just like car insurance—if you don't use it, you lose it, but it tends to give the most bang for your buck.

In 2023, these insurance policies ran about \$5,000 per person annually, \$9,000 for a couple. You get about \$225,000 in benefit each the day you sign up, and that benefit grows with a cost-of-living adjustment, typically between 3 and 5 percent per year.

What bothers us is that insurance companies may tell you that you are receiving a “guaranteed level premium,” leading you to believe that your monthly long-term care premiums will never increase. However, it's not guaranteed to be a level premium at all. More typically, what happens is that the company gathers your premium for years, until you get to your late sixties or early seventies, and then they send you the letter telling you that your premiums are going up 50 or 60 percent that year.

It's shocking, and it happens because the insurance companies initially underpriced these policies ten and twenty years ago, so now their costs are increasing. Unfortunately, raising your premium this way is entirely legal. Insurance companies can't do this willy-nilly: they have to petition the insurance commissioner to raise premiums on a whole class of people. But they are generally successful in getting permission as long as they

can prove they are losing money on the class of policies.

Even at the initial lower rates, budgeting \$6,000 per year to protect your \$500,000 to \$700,000 in assets just does not seem cost appropriate. Ten years out, you've paid \$60,000; twenty years out, you've spent \$120,000. If you die of a heart attack, that money is gone.

We just want to warn you that if you have traditional long-term care insurance, expect the letter and don't panic and cancel. All those years of premium payments would go down the drain because you were caught off guard and panicked. Some people cut their benefit in half to keep the premium the same. Still, that may not be the best option. We want our clients to know ahead of time that the premium hike is highly likely, and we advise them to plan on it and budget for it so that the many years of premium payments they've made will not be wasted.

## **Insurance with a Long-Term Care Rider**

Long-term care riders have come to the forefront since 2011 as a way to mitigate your long-term care risk. Here, you can purchase a life insurance account with a long-term care rider attached that allows you to dip into your death benefits for long-term care purposes—tax-free—as long as you qualify for long-term care needs. Qualification typically depends on being unable to perform two of the six activities of daily living (such as bathing, feeding yourself, transportation, or cognitive

activities).

When you get a traditional life-insurance policy and you've got a \$200,000 death benefit with some cash in there, you might have to pay taxes to dip into that cash. With the life insurance and long-term care rider, you can actually dip right into that \$200,000 for long-term care, tax-free.

The type of policy we like to use allows the cash that you put in to grow over time. Even though your death benefit is \$200,000 when you are sixty years old, by the time you're eighty or eighty-five, the cash you put in has grown enough to start pushing that death benefit up. At age eighty or eighty-five, your \$200,000 becomes \$300,000; at age ninety, it becomes \$400,000.

This helps you beat the inflation scenario, and if you don't tap into that \$400,000 at age ninety for tax-free long-term care, your beneficiaries will receive that full death benefit tax-free to them.

The insurance companies are embracing policies with long-term care riders wholeheartedly because they know they're going to pay out your death benefit no matter what. They're much more lenient on how they give you the assets from the death benefit. They're not as restrictive as traditional long-term care insurance, which requires you to show receipts of your expenses and apply for reimbursement and can be a massive headache. With the rider option, you simply need a doctor's note saying you cannot perform two out of the six activities of daily living, and the insurance company allows you to start taking the benefit.

There are restrictions, but in general these plans are a terrific option for many clients. The negative is that this option is very expensive, usually \$1,000 per month per person for life.

## **Asset-Based Long-Term Care**

Asset-based long-term care is a strategy for saving money to fund the long-term care account, let's say \$10,000 per year for ten years. Once you have \$100,000 saved and you die, the account pays approximately twice the amount in death benefit, or about \$200,000. If you went into a long-term care facility, it would pay approximately four times the amount in long-term care benefits, or about \$400,000. An additional advantage of these plans is that if you change your mind after four or five years, you have the liquidity to pull that money out of that account. It is completely liquid and has no penalty.

The problem is that some couples may find it difficult to save \$100,000 each over ten years.

## **Self-Insurance through Home Equity or Liquid Assets**

If you can't qualify for life insurance for any reason, or if it makes sense to self-insure, we can look at the option of using your home as a long-term care

bucket. If you own your home free and clear by your eighties, you can access your equity in the home to pay for assisted living. Alternative options might be to sell the home and use the proceeds, or use a reverse mortgage, which is always our final resort and last option to generate income.

Other liquid assets for self-insurance can include cash, income from rental property, equity pulled out of your home, or excess gains from your Risk Bucket. The majority of the time, we advise clients to self-insure when they are able.

### *Safe Harbor Trust*

Some people consider safe harbor trusts, but we don't recommend them. These involve moving assets out of your estate so you can drain the estate down and then turning to Medicaid for your care or the care of your spouse. Although many people are motivated by the desire to protect their spouse from bankruptcy in the case of catastrophic medical costs, from our perspective this is dishonestly asking taxpayers to pay your bills.

The IRS agrees. They now say that if you're diagnosed with Alzheimer's within five years of transferring assets to a safe harbor trust, they will reclaim those assets and demand tax payment. Also, it is not logical to transfer your hard-earned assets—even to a sibling, who could wake up one day and take possession of your assets for good.

## *Divorce*

Divorce is the most tragic option that people sometimes turn to. They feel that they cannot afford a long-term care solution, and if debt is racking up, they know their spouse will be held responsible for paying it. Out of desperation, they divorce to protect the healthy spouse from bankruptcy.

### *Worst-Case Planning for Long-Term Care*

We like to hope for the best but plan for the worst. The worst-case scenario for long-term care expenses is typically when a healthy man or woman contracts Alzheimer's. It's devastating financially because they're going to live long with a very expensive illness.

Let's go through the three parts of the Alzheimer's journey using John and Jane as an example again. John is diagnosed with Alzheimer's. The first day that John forgets an anniversary, Jane doesn't check him into a facility at \$10,000 a month. You don't do that. The first third of this journey is when Jane, John's spouse, takes care of him. It takes a lot of effort, but the costs are not very much.

The second third of the journey starts when John's needs go beyond what Jane can handle herself, so she calls an in-home care service to give her a respite from being on deck twenty-four hours a day. It still does not cost \$10,000 a month, but it does cost more and more as you ask the service for more hours of help.

At some point, when John puts on a shirt and tie at two in the morning and walks out in traffic, Jane knows

John needs full-time care. This third part of the journey is the shortest and most expensive. Now we are talking about full-time care at \$10,000 a month.

In looking at the actual costs so as to realistically break down your exposure and the expense, it's prudent to look at the third/third/third breakdown. The worst case cost of long-term care with Alzheimer's is that last third, normally nine to eighteen months at approximately \$10,000 a month, for full-time care expenses of \$180,000 to \$200,000 in 2023 dollars.

We keep this worst-case scenario in mind to build and test your plan, making sure that you have made the best decisions possible to protect your assets in case of catastrophic illness. We also try to make sure that this long-term care protection is built into the final years of each plan so clients can afford whatever option works best for them.

We try to protect your assets in a variety of ways, and insurance policies can help. Just as it's important to reduce the risk of financial burden due to accidents or illness, we also try to make sure we take every opportunity to reduce the risk to your assets. Most people come to us with literally all their assets at risk, often because their banker or broker told them this is the preferred model. There is no need to do this. In fact, we believe it is insanely risky.

Chapter 7 will look more closely at this.



## 7

### **Step 5: Reduce Your Risk**

The next important step of our planning approach is to squash the risks you face as much as possible to help you have more peace of mind in retirement. Some risks can be eliminated, such as interest-rate risk and stock market risk, by using principal guaranteed accounts to distribute your income for the rest of your life; some risks just have to be minimized, like stock market risk on your risk accounts, because you don't have total control.

We look at risks from a number of perspectives, and we've already detailed many of them in previous chapters: the chance of having too much or not enough money in the Risk Bucket, the death or catastrophic illness of a spouse, the risk that inflation will compromise your income in future years, and many others. As we go through the planning process, we try to review all of your options to reduce the effect these risks and others could have on your retirement.

In this chapter, we will dive deeper into certain kinds of investments that we believe do, or do not, belong in your portfolio.

## Reducing Risk to Your Monthly Income

You already know that we shrink the risk to your first twenty years of monthly income by using principal guaranteed accounts in Buckets 1, 2, and 3. That gives you priceless peace of mind that your income is not going to change when the market crashes again.

And it will crash again—it's part of a market cycle. The markets have several cycles. One is called the seven-year cycle because every seven years, the markets seem to crash really, really hard. It's been happening consistently for decades. When it happens again, clients who have done their planning with us know their monthly income is secure.

Our clients also know that when interest rates go up, as they eventually will, bond funds are not safe investments, particularly when your income is dependent on their stability. That's why we ladder maturities in the first twenty years of your plan, so we have reduced or eliminated principal risk and interest-rate risk. This is the most important thing we do for our clients. With twenty years of income coming from principal guaranteed accounts, that means markets can rise or fall, the economy can be strong or weak, interest rates can go up or down...and none of it affects your principal. Priceless peace of mind!

# Reducing Risk to Your Growth Portfolio

Once your plan for monthly income is stable, we go into the risk side of the portfolio—your Risk Bucket. This is not principal guaranteed money. This is at-risk money, and everything is open to be used for this money. We look at and review all risk options for this account.

We bring our experience in working with different types of investments to every plan. One thing we know is that many investments are specialized: they sound really interesting and thrilling, but they are not always appropriate for everyone.

This can be a trap when you are working with someone who is not a fiduciary—someone who does not necessarily put your best interests ahead of everything else. Sometimes, investors get sold something because it just sounds really good. Think about the dot-com era. People invested in companies without even knowing what those companies did because it was exciting to be involved... until a lot of those companies went to zero.

When it comes to at-risk money, retirees often find themselves in a quandary. Once you retire and take that last paycheck, you're in a spot. You can't live on CD interest when rates are low, but you also can't afford a negative hit in the stock market like 2008 or 2022 again either. Addressing this quandary is the heart of what we do at Decker Retirement Planning Inc.

We want to meet two goals with your risk money. First, we want it to generate growth and keep up with

S&P 500 returns, which is no small task since 85 percent of money managers and mutual funds don't do that each year, according to the Vanguard Group. Second, we want to protect downside risk, so we measure all the different asset classes on the risk side to try to ensure they meet these goals.

Let's take a look at some common asset classes.

## **Mutual Funds**

Mutual funds are typically a common portfolio that you buy shares of because you like the manager's approach. The manager's focus can be growth or value. The funds can focus on large-cap, mid-cap, small-cap, international, or emerging markets. Almost every person in this country has had experience with a mutual fund, whether directly or indirectly through a 401(k) at work.

Mutual funds are a core component of the Decker two-sided strategy, but we have to specify how we use them. We do not use income funds or bond funds. We like stock funds, as long as they have downside protection, so we do not use mutual funds that employ a buy-and-hold strategy. That means we categorically reject more than 90 percent of the mutual funds out there since they have no downside protection. When the markets go down, we need to see strategies in place to help protect those funds.

Most mutual funds are buy-and-hold funds with very low turnover. As the markets go up, they participate, but when the markets go down, they have no downside

protection. You take the full hit. Remember the asset allocation pie chart we talked about in chapter 1 that some advisors use as a guideline to diversify your assets? When the market crashes, like it did in 2022, the theory is that a diversified equity portfolio of large-cap, mid-cap, small cap, international, and emerging markets sectors keeps you from large losses on your money because not all the categories will crash at the same time.

Well, we did our own study of equally weighting those asset classes with exchange-traded funds (ETFs), and the benefit of diversification goes out the window in a panic sell-off. When the markets go down in a panic sell-off, everything goes down. Most all the risk asset classes are connected to each other.

If you read the prospectus in mutual funds, you'll see that most limit cash to 5 to 7 percent—meaning that when the markets go down, you do not hold a fund that can raise cash to cushion your losses, and you're going down with the markets. Then look at the performance of these mutual funds in 2022 and compare them to the S&P 500 to see if there were any protective measures in place. That's an easy way to predict how that mutual fund will behave in the next down market. If it loses the same amount as the S&P 500—or more—what are you paying for? You might as well own the S&P 500 SPY ETF, lower your fees, and call it a day with a buy-and-hold strategy but no management fees.

The mutual funds that employ downside protection are risk funds and are not principal guaranteed. However, these risk funds can lose principal. That's why we use

these funds only for your at-risk growth money—your Risk Bucket.

These funds are designed to protect assets on the down-side in two-sided models, which we've discussed. When we evaluate funds, we look for exceptional managers that utilize these techniques.

First, some have two-sided, long-short portfolios. When the markets trade on the upside (the long side), the funds will participate in the market. When the markets go down (like they did in 2000, 2001, 2002, 2008, and 2022), these models will go short, move to cash, or use other strategies to protect your principal. They can make money as the markets go down or at least protect principal. We like those funds or managers!

Another technique these funds use to protect assets on the downside is called sector rotation. When a market is trending higher, a lot of its sectors are participating and going up in value. This is called a risk-on market. But when the market is trending down, sector rotation strategies will rotate out of stocks to whatever is now trending higher in a risk-off market—for example, gold, treasury bonds, utilities, staples, the VIX, or the US dollar. These are lifeboats when the markets are going down and are typically the investments that rise in a risk-off market portfolio.

For example, in 2008, treasury bonds, precious metals, the VIX, and the US dollar were the only four sectors that continued to go up in the second half of the year. If you didn't rotate into those, you had a horrible second half of 2008. Those sector rotator funds didn't go

short but were able to make money by rotating into those rising sectors.

At Decker Retirement Planning Inc., we go by the mantra that it's far better to try to avoid losing money!

## **How Mutual Funds Are Sold**

Let's talk about the different ways that you can buy mutual funds: loaded funds or no-load funds. We consider this information a community service because there are many deceptive sales practices out there, and we don't want you to be duped.

A front-end loaded fund means you pay a commission up front on your initial purchase. For example, if you put \$20,000 in, 5 percent, or \$1,000 of that money, goes to the salesperson right up front. You're only investing \$19,000 of your \$20,000. This is also called an A share. Why would anyone do this? Well, because a broker persuades you that these are a better deal.

Sometimes an unethical broker or salesperson will tell you that there's no up-front fee for a loaded fund. But they don't tell you about the back-end charge in a B share fund—a sales charge you pay to take money out. Sometimes those back-end sales charges go away if you own the shares for a specific number of years. Nevertheless, it can be a dilemma for clients. Now you do not want to sell because you're going to get charged a big back-end fee. Also, if you invest correctly, the back-

end fee will be charged on a much larger amount since it has grown over the years, creating a much larger fee than a typical frontend charge.

You may also encounter something called 12b-1 fees, where the broker doesn't charge you a front-end or a backend fee, but charges you an additional 1 percent fee every year that you own the shares, on top of the management fee for the mutual fund. This hidden charge can double your total fee. When a broker says, "We'll make sure that you're invested in funds with no front-end or back-end fees," ask if there are 12b-1 fees. Many times these are called C share options. Again, we do not like hidden charges, and C shares are the worst, in our opinion, since the broker rarely tells you about that fee.

We see no reason for clients to pay a front-end or a back-end charge with so many fantastic returning vehicles that are no-load funds—no front-end, back-end, or 12b-1 fees. There are still management fees, but that's fine—you're paying for manager excellence, not for being sold a fund that is inappropriate for you. Every active mutual fund has an inner management fee. Google the Morningstar website for some fantastic fee disclosure information on your mutual funds.

Mutual funds typically have A shares, B shares, C shares, and I-class shares. I-class shares are institutional shares and are usually a low-fee option; these are what most people see in their 401(k). Your 401(k) administrator has negotiated with the mutual fund companies to have a discounted fee structure, which is good. But some have not negotiated well on your behalf

and put you in low-performing funds with high internal fee structures. Know your fee structure.

## **Bond Funds**

We've said many times throughout this book that when interest rates are low, we feel that bond funds are not safe—your principal is not safe, and you are not getting paid much. We categorically advise people to steer away from bond funds when interest rates are low.

Bond funds are mutual funds that have different types of debt securities, such as government bonds, municipal bonds, corporate bonds, and high-yield bonds. Sometimes they are advertised as guaranteed bond funds. Don't be fooled! The bonds inside the funds are guaranteed by the issuers; the returns of the fund are not. For example, a US government bond fund is a mutual fund portfolio of US backed government bonds, which are guaranteed by the US taxpayer, but the returns on these funds are not guaranteed at all. If interest rates go up, you will lose money on these funds. It doesn't matter that the bonds in these funds are guaranteed. The returns are determined by the interest-rate environment and trends. Bond funds have no way to guarantee you any returns, even if the securities in them are guaranteed.

We look at your 401(k), and if you're close to retirement, we have you switch from bond funds in the 401(k) over to the stable value, which is basically a glorified money-market account. You won't lose

principal on that account, even if rates go up, since it is not a bond fund. It is a GIC, a guaranteed investment contract. Accounts like this only pay a couple percent interest right now, but as soon as you retire, we're going to do a rollover from your 401(k) into an IRA. The 401(k) manager will liquidate all your accounts because rollovers occur in cash. If you liquidate bond funds at a loss, you're locking in those losses.

## **Why Higher Yields Are Not Necessarily Better**

Bonds are rated in Moody's and S&P based on their safety and ability to pay back principle at maturity. The ratings go from AAA to AA+, AA, AA-, A+, A, A-, BBB+, BBB, BBB-, BB+, BB, BB-, and so on all the way to D for "default." Any bonds rated AAA to BBB are called investment-grade bonds. Only about 15 percent of corporate bonds are investment grade. Anything below a BBB rating is called a high-yield bond, or a junk bond. With high yields, these do very well when the economy is expanding, but when the economy is contracting, the failure rate can hurt you.

If a company is paying a high yield, what does that mean? Companies need investors, so they create a yield to attract them. At some point a higher yield should bring up a red flag.

Let's say Corporation A is financially sound with a great balance sheet, running a fantastic business, and

offering bonds at 3 percent yield. Corporation B is a horribly run company, a disaster that desperately needs a capital infusion. What do you think their bond yield is going to be? Probably about 7 percent. A lot of retirees make the mistake of thinking Corporation B must be better because it's offering this higher yield.

Higher yield does not mean better. The higher the yield, the higher the risk that the company may not be able to pay the dividend or the interest. This principle holds true for municipal bonds, utility dividends, energy partnerships, and many other kinds of investments.

## **How Bond Funds Are Sold**

Again, in modern portfolio theory and the asset allocation pie chart, bond funds are represented as your safe money by bankers and brokers. Remember the rule of 100 that we discussed in chapter 1? That's the guideline that tells you what percentage of your money should be in bonds. For example, if you're sixty-five, that rule says you should have 65 percent of your investable funds in bond funds or safe money, in a diversified bond portfolio of municipal bonds, corporate bonds, government bonds, high-yield bonds, and international bonds. Also, you would diversify your durations, which is whether the maturities of the bonds are short (five years or less), intermediate (five to ten years), or long (more than ten years).

Duration is important because when interest rates go up, you will lose money on your bonds or bond funds. This is interest-rate risk. You may lose less money on the shorter durations, more money on your intermediate durations, and a lot of money on long-term duration bond funds. That's why we feel it's very important to put a plan together like we do with the bucket system, where we have safe money but we do not have it in bond funds.

Bill Gross, who used to be at PIMCO and Janus but recently retired, issued grave warnings about bonds and interest rates in interview with Lauren R. Rublin of Barron's, titled "Bill Gross: Why Interest Rates Must Rise." He warned that your principal is at risk when bonds have low interest rates because interest rates will eventually go up. He warned that the

Federal Reserve's 0 interest-rate policy is unsustainable and eventually we'll have to normalize. When that happens, people who own bond funds will lose significant principal as interest rates start to go back up.

The one exception is individual bonds. These could be fine because you're being paid a specific interest rate on that individual bond with a specific maturity date—you'll get your money back, provided that the municipality or the company doesn't go bankrupt. All in all, individual bonds could be fine in a laddered structure in your portfolio. We usually keep them as part of your plan.

The problem with bond funds in general is that they're valued every day. If you're trying to take

withdrawals from the bond fund for income needs and the fund is being valued every day in the market, as interest rates rise, the value of those bonds goes down. If you're taking a withdrawal from the account, you're doing it at a loss, because the overall bond fund has decreased in value. We never draw income from a fluctuating account.

We like bonds when interest rates are higher. However, we think that it's financial malpractice to recommend bond funds and call it "safe money" when interest rates are low or in a rising interest rate environment.

## **Real Estate and REITs**

Should real estate and real estate investment trusts (REITs) be used as a growth vehicle in your portfolio? It depends on your situation. Let's take a closer look.

Brand-new rental real estate typically has a high cost and a low net return (after taxes, maintenance, and costs of managerial oversight). The rental income from brand-new property typically averages around 2 percent net or less. Plus, buying real estate property requires paying huge commissions up front, typically 4 to 8 percent, and it can tie up a lot of money, so it can be difficult to see much return on this kind of investment in the early years.

Nonetheless, if you've held the property for years and your basis is low, then the same return on a lower cost basis is much higher. Now your returns are 5 or

6 percent. Still, when you're a property owner, there is work to be done. It's not like owning a stock. As a landlord, you've got to earn that return by doing some maintenance and upkeep work.

Real estate can certainly generate income and tax advantages and be a potential tax write-off because of depreciation, but we see it as net neutral in general. Owning real estate in a strong housing market isn't so much about return, year in year out. It's about the longer-term appreciation on that property. However, if the housing market goes down, so does your equity.

This is why we look at your real estate through two different lenses: income and growth. Whether to keep your real estate depends on your specific plan. We look at the math to see what kinds of returns you're getting on your real estate, and then we explore if you really want to continue in the real estate business. Some people say, "Hey, it's not about return. I just don't want to be a landlord anymore." Other people cannot imagine their portfolio without real estate. Look at net returns to help optimize your portfolio.

There is another way to use real estate as a growth investment that also helps you protect your capital: a REIT. REITs allow you to capture the upside of a real estate market cycle while also being able to easily liquidate, like a stock. REITs can also target different geographical areas of the United States or around the world, as well as different types of real estate. You can invest in northeastern real estate, southwestern real estate, commercial offices, post offices, hospitals,

and so on. REITs can be highly concentrated or highly diversified. All REITs trade just like stocks and can be bought or sold in any type of account.

We call REITs inflation busters because real estate grows in value with inflation. That's a great advantage. A disadvantage is that REITs do not typically pay out in capital gains—they pay out income, and the earnings are taxed as income. This means that you want to protect REITs in something like an IRA or a Roth.

REITs fit well into the two-sided, long-short model. The risk models we use are able to capture the upside when the market for real estate is rolling. When those markets go down, real estate is able to have a stop loss, or a sell point—to cross a moving average, for example, and automatically be liquidated. The client could benefit further by not incurring the prohibitive costs of buying and selling physical real estate.

REITs can be complicated and shouldn't be purchased lightly because some are nontraded and nonliquid. We recommend that most people stay away from the nontraded REITs. There may be room for nontraded REITs in the portfolios of very high-net-worth clients, but not for the average person. We've heard too many stories of these nontraded REITs crushing portfolios in 2008. If you had less than \$1 million of investable assets and you put \$500,000 of it in a nontraded REIT in 2006 or 2007, then in 2008 your \$500,000 was not liquid—and it wasn't even \$500,000 anymore. The average REIT was down ~70% in 2008!

# Commodities

Commodities are the largest risk-side asset group in the world. Commodity markets include all the world's stock markets, bond markets, currency markets, energy markets, agricultural markets, and precious metals. For the purposes of your plan, we separate out the stock and bond markets and talk about commodities as the more tangible items.

We include commodities in our plans through ETFs — exchange-traded funds. ETFs hold commodity securities that trade like stocks. We roll these ETFs into our twosided models so that when they trend up, you benefit, and when they trend down, they can come out of your portfolio. Each commodity group is represented by an ETF such as gold, silver, coal, oil, and so on. These trade like stocks. The models we use hold them as they are showing strength and can sell them if they are in downtrends.

Here's an example: From 2000 to November 2014, gold and silver had a place in this kind of portfolio. They were trending higher, and they did fantastically. But when the gold and silver markets rolled over in November 2014, this model could automatically pull these commodities from the portfolio. We had clients who were not negatively affected by the painful 40-plus percent correction in gold and silver in 2014 and 2015. These models recently bought them back in late February of 2016 for a short period.

Buying and holding gold, in our opinion, is risky on many levels. We know that gold is almost a religion to some people. Many of our clients have gold bullion in a safe-deposit box for peace of mind that if the US dollar does tank, they have their gold or precious metals to barter with. That's fine. Gold and silver are good to hold in a safe-deposit box, not as a growth account.

However, we do love gold in ETFs as long as it's in an uptrend. We love wheat, corn, cocoa, and all the commodities, as long as they're in an uptrend. But when the markets drop, the models sell out of them. We never want to invest you in commodities on a buy-and-hold basis since most all markets cycle up and down.

## **Futures**

Futures are to commodities what options are to stocks. Futures are the pricing of a commodity in a future period. Let's say, for example, you are farming wheat and you need to know, before you put in your crop, if you're going to make or lose money. This is called crop insurance. Some people insure their crops and their profit by using the futures markets.

You plant a crop of 200,000 bushels of red wheat in April. You presell 200,000 bushels at \$1.20 per bushel—you commit to deliver the crop in August, and it will be sold at that price by shorting the red wheat contract at \$1.20. If supply and demand push the price of wheat down to \$0.90 a bushel in the meantime, you have

locked in a gain on your short position to offset the loss of delivering your crop at a lower spot price. If scarcity raises the price of wheat, you will make more than you might have on the spot-delivery price, but again, you have locked in your price at \$1.20 per bushel due to the offsetting loss on the short futures contract.

When you purchase futures, you are hedging the future price of that commodity. About 90 percent of all the transactions in the futures market come from hedgers who are being practical about protecting their bottom line. The other 10 percent or less are speculators; they're just guessing whether the markets for those contracts are going to go up or down. That's not investing. That's gambling. That's guessing.

Another example is that when Boeing sells JAL (Japan Airlines) \$15 billion in planes set for delivery in two years, they need to lock in their materials prices and the currency exchange rate. Otherwise, if material prices go up and the yen adjusts higher against the US dollar in the next two years, Boeing's profit margins will vanish and they will build those planes at a loss. The futures markets allow hedgers, like Boeing, to lock in commodity prices in a fluctuating market.

We have looked at managed futures for the Risk Bucket as a hedge against inflation, but the returns just are not there yet. Managed futures programs, long and short, do not produce the returns that current two-sided models do.

# Options

Stock options allow a person to control shares of stock for about 10 percent of the cost. This can give leverage. Also, the option price has an expiration date on it, creating an investment with huge upside potential but with quite a bit of risk.

Here's a chilling story about stock options from an instructor of finance and investment with more than thirty years in the business. When the time came in the class to discuss stock options, he used his foot to open the flap on the floor that covers the hole for plug-ins. He said, "Imagine that's a rat hole."

Then he took his hat, glasses, wallet, watch, and keys and threw them down the hole. He said, "That's what stock options do." Then he said, "If any of your customers want to invest in stock options, tell them to just write you a check up front for \$5,000. That would be half of what your commissions actually would be, and you'll save your customer six figures on the losses he would have taken." He said that he has never seen anyone make money with stock options over a twelve-month period.

We can say the same thing. We have never personally met anyone who has made money in a twelve-month period in the options market. This is because options are a disintegrating asset. You have the potential to make big money because your leverage is huge, but you not only have to be right to make money in the options market—you also have to be right within a

certain period of time.

I have a friend who told me, “You might as well go to Las Vegas, because at least you get a dinner and a show before they take your money.” People use options because they are tantalized by something that just looks too good not to try. The fact is, statistics don’t favor success in the long run, even for the professionals. Most people don’t have the discipline to exit on time.

I had my own experience in a brokerage firm, being trained in selling covered calls. Covered-call writing is when, instead of buying the options, you sell them and are credited with the call premium and create a dividend for yourself. A lot of retirees sell covered calls to create an income. What is their risk? In an up market, they risk delivering the stock and leaving a lot of growth on the table, all for the small dividend of 5 percent or so. In a down market, their risk is to hold on to the stock and take a massive loss, all for the small dividend of 5 percent or so.

I was in a brokerage training meeting, and they taught us to tell customers to sell the call and create a dividend. You own the stock. If the stock continues to go higher, then that dividend goes in your pocket. If the stock trades flat, you keep the dividend. If the stock goes down, you hold the stock and reload. I raised my hand in the training meeting and asked, “You mean that I own the stock and I’m cutting off any future upside, retaining all the downside, and getting paid only if the stock trades flat?” There were a lot of glares!

Seriously, why would any of us do that? It is a great strategy in a flat market, but how can you know when that market is coming and how long it will last?

Options were initially designed to help protect large portfolios from downside risk. If you understand exactly what you're trying to do with them, they could be a perfect vehicle for limited applications. They can work if they are used to hedge downside risk. But we do not use them to accomplish growth in your retirement portfolio by speculation. Way too risky!

## **Foreign Exchange**

Foreign exchange investing means buying currencies of other countries, such as the euro, the pound, the yen, or the yuan. Those currencies trade in contrast to the US dollar, and their value can go up or down relative to other currencies.

Like commodities, we invest in foreign currencies through ETFs. If the US dollar is weaker than other currencies, our quantitative programs will include it in investments as long as their uptrend is in place.

Some people worry that the US dollar will be replaced in the world market as the trading standard. We don't think so, but if it did happen, most bankers and brokers are able to switch currencies effortlessly, so you could easily avoid currency risk.

## **Oil and Gas Partnerships**

We do not use oil and gas partnerships, or any other partnerships for that matter. Partnerships pay out net—after expenses—to shareholders.

Imagine we put out our shingle as oil and gas wildcatters in Texas. Through a partnership, we raise \$10 million or \$15 million in investments. We blow through it looking for oil in all the wrong places. We then report a 100 percent loss to shareholders. Then we raise another \$15 million and strike oil. The first thing we do is buy a private airplane—we certainly do not pay shareholders as the first step. We don't pay them until we've spent all the money we feel like spending. Partnerships pay out net. They also have no downside protection, so, for several reasons, we don't use them.

If you want to trade in the oil sector, use ETFs for exposure to the sectors you like without having to pick stocks.

## **Trailing Stops**

The term trailing stops is stock market jargon. It means that when you buy a stock at a certain price, you want it to automatically sell at a certain percentage loss from that price. For example, you decide that you never want to let your stocks drop more than 10 percent. If you buy Microsoft at 40, you put in a trailing stop to sell the

stock at 36, 10 percent below the purchase price.

The advantage of a trailing stop is that when the markets go down hard, you're out with only a 10 percent loss.

Now, let's list all of the disadvantages of using trailing stops. The first is that your trailing stop is physically on the books of people on the New York Stock Exchange. Human beings are human. It's not uncommon to have a day where the stock is at  $36\frac{1}{2}$  or  $36\frac{3}{4}$  and the traders will take the stock down to your 36 stop because it clears the books. Then they will close the trade back up at  $36\frac{3}{4}$ . This happens all the time. It's called whipsaw.

Trailing stops look really smart in theory. In practical everyday use, they are very difficult to manage, especially when you have highly volatile stocks. Add emotions to that. When fear or greed comes into play, you may be tempted to start adjusting your trailing stops. Your Microsoft is at X and you think, maybe I'll adjust it down just a hair. You start playing with it. This habit has a tendency to escalate once you've been burned with your stops and you create a mental stop. Fear and greed can keep people from making the best rational decisions.

If you are close to retirement or in retirement, do you want to spend your time worrying about your trailing stops? We don't think so.

## Leverage and Margin Investing

Leverage means that your dollar can be multiplied and borrowed again. If you have an investment leveraged at two times or three times, when the market goes up 1 percent, you make 2 percent or 3 percent. This cuts both ways: when the market goes down 1 percent, you lose 2 percent or 3 percent.

Margin investing is borrowing against your portfolio to buy additional stock. Let's say you have your \$100,000 portfolio fully invested, but you really want an exciting new stock. You don't have any extra money to invest, so you borrow against your portfolio.

You gain access to \$50,000—50 percent of your current portfolio—to buy other stocks. That's the up-front loan amount. It's pledged as a collateralized loan, and you pay interest. When you're short, you owe the dividends.

You get a margin call when the value of your borrowed securities drops from 50 percent to 30 percent. A margin call demands that you pony up the extra money to make it back to at least that 50 percent level. The Securities and Exchange Commission has very strict rules on margin investing.

When the market is going up, leverage can look like a no-brainer: you turn your \$100,000 into \$150,000 worth of securities. In the late nineties, people would leverage everything they had. There was a brokerage firm that even allowed people to leverage their houses

by using home equity—not by taking out home equity loans and handing the cash over to the investors, but by actually attaching their mortgages as collateral. In 2000, 2001, 2002 and 2008, people were losing their homes and their hundreds of thousands of dollars of home equity. We would never advise clients to do that! Be careful how you use leverage in your investments.

## **Hedge Funds**

People usually think of hedge funds as focused on both upside and downside models, where you can make money in an upward or down market. Typically, hedge funds use everything on the table: options, futures, derivatives, and leverage (margin investing).

Hedge funds pool clients' money together and deliver a specific return. They usually have very high minimums and can possibly be appropriate for people with portfolios of \$50 million, \$100 million, or more.

But let's be clear: We do not like hedge funds, and we do not put our clients' money into them. We do not like these funds because their motives don't align with ours.

We are fiduciaries. Hedge funds are typically compensated through both management fees and a performance-sharing arrangement that can have an enormous impact on your profit. The sharing arrangement goes something like this: any gains over 2 percent are split 80/20 between the client and the hedge fund

manager. So if your fund makes 4 percent that year, you actually only get 3.6 percent.

Now imagine what happens in a down year. Let's say that your hedge fund is down 8 percent for the year as of November 1. Guess what the fund managers will do for the last two months of the year? They will goose that portfolio in short-term and potentially unsafe ways—using options, futures, leverage, and derivatives—because they don't get paid unless they get that portfolio up. They go for broke.

If the fund blows up, they reason, they can always just start another one. They haven't lost anything, but their clients have lost everything they invested in the hedge fund. It happens all the time.

We cannot have our clients' money in something like that. We don't go for broke with your money.

Hedge fund performances in 2014 and 2015 were mediocre at best. Still, the average hedge fund manager received hundreds of millions of dollars in compensation for those that performed well.

## **Variable Annuities**

We do not use variable annuities because they don't meet our goals for risk money to track the S&P 500 on the upside and protect assets when the markets go down.

These annuities are laden with fees, which we don't like—typically a broker gets 5 to 8 percent commission right up front. Then there are layered annual fees. Every year you own the annuity, the broker gets paid, the insurance company gets paid, and the mutual fund companies that invest that money get paid. These three layers of fees typically add up to 5 to 7 percent a year—all before you make a dime.

There's a saying in our business that variable annuities are not bought, they are sold—meaning that good, honest, hardworking, bright people would never own them had all the fees been fully disclosed. The simple math is that if you reduce your fees, your returns are a lot better.

Some older variable annuities have an income rider attached to them, with guarantees built in. (Brand-new variable annuities have income riders too, but they are not as favorable anymore.) When a client comes in with an older variable annuity already in their portfolio, we do conference calls with the variable annuity company and go through a series of questions to identify all the ins and outs of that particular annuity. If they have guarantees that make sense, we incorporate them into the client's plan.

Here's an example: Samuel comes in the door with a variable annuity that he has borrowed against. He's invested \$100,000 into variable annuities. The annuity is worth maybe only \$60,000, but Samuel is getting an income rider of \$1,000 per month for life. That's a huge return on the existing value left in that

investment—\$1,000 per month, or \$12,000 per year, on a base of \$60,000 is a 20 percent return! We would never sell that. There are very few situations, however, where we would keep a variable annuity. We don't like them, we don't use them, and we warn people about using them.

As we take your retirement plan through the first four steps—working with a fiduciary, maximizing income distribution, minimizing taxes, and protecting assets—we are also identifying ways to reduce your risk, the fifth step. Building a solid plan with the least amount of risk to you is one of the key ways we help you secure your retirement.

## 8

### **Step 6: Allow for Liquidity**

Liquid money is that which you have access to for spending when “life” happens and you need access to cash quickly.

Of course, it’s important to balance liquidity. If all of your money is liquid, then it’s not growing, because accounts that allow you immediate access have very low interest. If all of your money is locked up, you have nothing available for when life happens and you need funds.

We consider the need for liquidity all the way through the planning process, but we do a final check for it here in step 6, specifically by looking at potential emergencies.

### **Emergencies**

We target a good amount of liquidity in the plan so that if there’s an emergency and you need to grab a big chunk of your estate for whatever reason, it’s there.

It’s important to note that we define liquidity as money that’s available next day in your checking account without a penalty. If all of your money is liquid, that means it’s not working for you. If all of your money is

locked up, that is equally silly.

We're particularly concerned when we hear that others in the financial planning industry advise people to lock up too much cash in annuities. We want you to have the liquidity level you need without being locked up. We know that life happens. Cars break down, roofs need repair, water heaters break, and adult children call and request money. There will be necessary draws from your accounts for emergencies, and we don't want those draws to disrupt your plan in any way.

Although everything in the stock market is technically liquid, that's not the first place we want you to go. Being forced to withdraw emergency cash from your portfolio when the market is down is not a good situation. We prefer to see your liquid money in savings as your go-to source for emergency cash. We see a range from \$10,000 to \$70,000 in our clients' savings. In general, we think \$70,000 is the high end of the range since that money can at least begin to cover most types of emergencies, and excess funds can be growing in other types of accounts.

In addition, we try to have about 40 percent of your invested funds next-day liquid so that when life happens, you are able to deal with it and have liquidity without destroying your plan. This is counter to the way many financial planners will lock up your funds, and we want to warn you about that.

# Funding the Plan with Liquidity in Mind

Once a retirement plan passes the test in case of emergency, then we discuss how to best fund your plan, and liquidity plays an important role here. For tax reasons we use your already-taxed, nonqualified money to fund the front part of your plan, or the first ten to fifteen years of income. When you draw \$1,000 from your bank account, you are not taxed on that withdrawal. When you draw \$1,000 from your IRA, you are taxed on that withdrawal as current income. By placing your already-taxed, nonqualified money in the front of the plan, we can do three important things:

1. We can dramatically lower your adjusted gross income (AGI).
2. By lowering your AGI, we help you lower the taxes owed on your Social Security income.
3. During this ten-to-fifteen-year period of dramatically lowering your AGI, we take advantage of the lower tax rates and convert your Risk Bucket from an IRA to a Roth.

A Roth account grows tax-free, distributes income tax-free, and passes assets to beneficiaries tax-free. We love the Roth account, and it should be the fastest-growing and most long-term account to maximize the Roth benefits.

Depending on the liquidity of funds, typically there are three costs to funding a client's plan that we will need to review with them:

1. The cost of transferring accounts: Occasionally, a custodian will charge a small fee to transfer assets. We try to offset that expense by crediting the fee amount when transferring in to Fidelity, our custodian.
2. Capital gains: If they have low basis stocks, many people do not want to pay capital gains taxes to liquidate and fund their plan. We try to help people not let the “tax tail wag the dog,” so we sarcastically say, “Let’s wait for the market to hammer your stocks so we can sell them low to minimize your capital gains tax.” There is silence, followed by a smirk when people get it. Our firm, Decker Retirement Planning Inc., wants to minimize taxes in every part of your planning—with one exception: liquidation of stocks. We want to maximize the capital gains that you pay on your liquidating stocks, since that means that we are also maximizing your after-tax gains. Almost everyone wants to sell high, even in hindsight, but few people like paying taxes. We get it. By the way, if we did let the tax tail wag the dog, the most efficient tax return from your investment portfolio each year is no dividends to tax, no capital gains to tax, and a \$3,000 loss to deduct. That’s not right, and most people know it.

We want to maximize your after-tax gains to fund your plan while still allowing for liquidity. Transferring cash doesn’t trigger any capital gains. Most mutual funds do not have big unrealized gains since they report this information via 1099s each year with short- and long-term gains. Liquidating most mutual funds does not trigger much in capital gains. We are careful to look at the potential capital gains taxes on individual stocks with a low-cost basis and set aside cash to pay those gains

when we fund your plan. Now your income plan is done and set to deliver the income that you need and want for the rest of your life. You have a strategy to dramatically lower your taxes and your risk. Now we need to focus on your end-of-life documents.

## 9

# Protecting Your Legacy

We want to be part of the team that works with you to help protect your legacy. Although we are not attorneys, we can offer valuable insights into how you can structure estate planning, powers of attorney, and trusts to preserve your legacy holdings and help transfer your assets to your heirs.

We always ask if you have current legal relationships that we need to be aware of. We want to respect these relationships, including those with family members, your CPA, and your attorney, and we'll ask questions related to these relationships to customize our advice.

Part of the planning process is to ask you whether you'll give your heirs money today, at death, or a combination. Almost 100 percent of the time, clients choose a combination of ways to transfer assets. Why? Well, let's give examples of two extremes.

The first extreme is when people give so much help to their kids that they sacrifice their own chance for a secure retirement. The kids have an expectation that whenever they hit trouble, Mom and Dad will write them a check. We'll never forget the couple who wrote a check every time their son and daughter asked for help, including cosigning for a house or buying a new car. The problem was, the parents were not getting their money

back. Over the years, they emptied their IRA and then went into their bank accounts. By the time we saw them, they had very little left. They couldn't afford the real estate tax on their beautiful home on Lake Washington. They couldn't even afford to pay people to mow their grass. They were financially in bad shape.

The other extreme is not giving your kids a dime until after you die, and they get what they get. You've lost the opportunity to create wonderful memories during your life by sharing, giving, and helping with their lives.

This inheritance also tends to come in a lump sum, and we believe one of the worst things that you can do to your adult children is to drop significant lump-sum assets on them. There's a phenomenon called the lottery effect that can happen to people who receive large lump sums. To use the lottery metaphor, often when someone wins the lottery, their spouse says, "I'm out of here," and takes half. Typically, the big winner's friends ask for money to help them in business ideas, and when he denies loans or gifts, he loses his friends. He quits his job. He spends all his money in about five years. Body, mind, and spirit are all worse off in five years than they were before he received the lump sum.

There are better ways to distribute significant assets that don't take this toll on recipients or beneficiaries. Transferring assets to heirs through a combination of inheritance and gifting while you are alive is the most common solution that can have positive outcomes for all involved. Here are some options.

# Trusts

We recommend that clients work with their attorney to set up trusts for the distribution and management of legacy assets. We hear attorneys tell our clients of the three reasons why people should have a trust:

- Do you have real estate outside of a probate-friendly state? A probate-friendly state is one where assets are transferred to the next generation quickly and for small fees. If the answer to this question is yes, we may need to recommend a trust to hold that asset.
- Do you have children from another marriage? If so, a trust can ensure the wishes of the deceased spouse are honored. See comments below on irrevocable family trusts.
- Do you have a large estate and don't want to lump-sum distribute your assets on one or two children? Large lump sums to any person changes their life...mostly for the worse. We advise that people spread out these large distributions into thirds. One-third upon the benefactor's death, one-third five years from the date of death, and the last third ten years from the date of death. This way when Johnny and Sally blow the first distribution, they can learn their lesson and have more funds to be responsible with later.

If any of these are true, then you may need a trust for a controlled distribution of your assets. There are various types of trusts to choose from for the best

combination for your situation.

## **Irrevocable Family Trust**

Todd and Jane are in a second marriage with children on both sides. They say to each other, “If you predecease me, I promise to take care of your kids.” Then Todd predeceases Jane, and all his assets transfer to her. Todd’s son does something that ticks Jane off or alienates her, and she cuts him out of her will, effectively denying him any share of his dead father’s assets.

To avoid that, we recommend that people put together a revocable family trust. This type of trust is made when both spouses are still alive, and it makes sure the blended family’s wishes are honored. It is considered revocable while both spouses are still alive so they can make changes, and then the trust becomes irrevocable and unchangeable when the first spouse dies and the will is enforced by the trust.

## **Probate-Free Trusts**

We also recommend trusts when you own real estate in probate-unfriendly states such as California, for example. You can create a trust that allows those assets to pass to your spouse and beneficiaries probate-free.

## Asset Distribution Trusts

Trusts are also very useful when you want to distribute assets over time rather than in a lump sum. A popular example of this is a beach bum trust. This trust distributes assets to your children based on their W-2 or 1099 earnings. The more they earn on their own, the more they receive from the trust. This offsets the temptation to kick back and let Mom and Dad's inheritance take care of them for the rest of their lives while they become trust-fund babies.

If you have young children and you are leaving a sizable estate, you can use a trust to help make sure the child does not get a lump sum on attaining age of majority in your state.

You can also make specific provisions for schooling and education through Uniform Gift to Minors Act accounts or 529 plans. The first transfers the entire lump sum to the heir at the age of majority. We like 529 plans, which pay directly to the school for your child's or grandchild's education. If the child or grandchild doesn't go to school, then that child doesn't receive those funds, unlike the Uniform Gift to Minors Act account. What do you think little Johnny or Sally will do when, at age nineteen, they have access to \$300,000? Why, they go to California, of course, and hit the beach! You get an email that says they don't want to go to college after all. Don't give them access! Use a 529 plan if you want to help fund your child's or grandchild's education.

## **Special Needs Trust**

Children might need extra help through their lifetime because of a disability or other reasons. You can establish a trust just for them, with the rest of your money distributed normally to the other surviving siblings. These trusts are very important for people who need to qualify for Social Security, because the trust keeps that money out of the qualifications process.

## **Inherited IRA Trust**

Inherited IRAs are no longer protected against bankruptcy. Your 401(k) is typically bankruptcy protected up to certain amounts, being a retirement plan. But when people inherit IRAs, they are not allowed to make contributions to them, and legally it is no longer considered a retirement plan. That leaves us susceptible to seizure upon bankruptcy.

If you have a sizable IRA that your children will inherit and one of them is not so good with their finances, or is in a profession vulnerable to lawsuit (such as the medical profession), you can consider having a trust set up specifically for your IRA. On your death, the IRA flows into the trust and then out from there to your heirs.

## Dynasty Trust

A dynasty trust is a generation-skipping trust that funds upon your death. This trust can last in perpetuity if you're from Alaska. It can last one hundred years if you're from many other states.

Let's say you have three children and significant assets. Your kids are doing fantastic, and they have all said to you, "Mom and Dad, I don't need your money." You can arrange to divide your assets on death in four ways instead of three, with the dynasty trust as the fourth beneficiary, intended to be passed on to your grandchildren's generation.

A dynasty trust is a per stirpes account, which means it is attached to your bloodline. Typically, a dynasty trust is used to fund the education of grandchildren and great-grandchildren. A percentage of the assets are available for them to draw out for tuition, books, and so on. Since it's per stirpes, when those grandchildren marry, their spouse has no claim on the trust assets even in the event of divorce.

A lot of people like the generation-skipping trust. It takes some savvy to set up and can be handled by a trust company, but it can be spendy to use a corporate trustee to oversee the trust—1 percent for the corporate trustee per year. We try to keep family in as trustees when possible.

# Gifts

As of 2023, each spouse can make an outright annual taxfree gift of \$18,000 per child. A married couple can give \$36,000 to each child per year. The child doesn't have to claim it as income in any scenario.

Another creative approach is to gift your kids with contributions to their Roth accounts if they are working. Whatever money they make—earned income—you contribute that amount to a Roth IRA in their names. If you put a couple of thousand dollars into a Roth IRA in your child's name at age twenty, think about how much that would grow tax-free by the time they're age sixty-five or seventy. It's another way you can start moving money from your estate to your heir's estate in a systematic way.

## Wills and Powers of Attorney

The very first thing we'll say about wills and powers of attorney is that the biggest problem is too many people don't have them. They know they should, but they don't.

There are options to put your documents together. One is to work with an attorney. We recommend you use someone you know and trust or who comes highly recommended. A second option is to create these documents yourself using online resources like

LegalZoom or Nolo. LegalZoom's software costs a couple hundred dollars. Nolo's WillMaker is ~\$200. These are great solutions if your situation is not complicated. If you've ever used TurboTax, you'll be familiar with how LegalZoom and WillMaker work. The software takes you through user-friendly questions about your personal information, your financial situation, your bequests, and your health care choices. In about forty-five minutes, you can create a community property agreement, wills, living wills, powers of attorney finance, and powers of attorney health care.

Let's take a closer look at some of these important documents.

## Wills

The will details your wishes about how you want assets distributed upon your death. In a will, it's important to make sure that your beneficiaries are clearly stated and that your assets pass to them with little or no tax. This is where we can help.

Make sure that your will is clear enough that your children still love each other as they process through the will. It is a tragedy to have three kids show up with their own attorneys to the reading of a will because the will is unclear and they don't trust each other. As part of our financial planning, we want to help make sure that your will is drafted in such a way that those tragedies do not occur. We are not attorneys—we make suggestions that

must be reviewed by your legal team.

Any account with a beneficiary designation—for example, an IRA, a Roth, a 401(k), life insurance, or a fixed annuity—or that is in joint ownership with right of survivorship will bypass the probate process completely since those accounts designate a beneficiary to receive those assets upon the death of the account holder. They do not flow through your will at all. These accounts distribute assets upon the presentation of a death certificate, affidavit of domicile, and letters of testamentary, which are assigned by the court and give you authority after the deceased parent has put you in charge. The institution, bank, or insurance company will pay the proceeds directly to the beneficiary.

It's very important to know that if you have a beneficiary designation on your account, you're going to bypass the will, and transferring assets to your beneficiary is very quick and easy. Part of our planning process is to help make sure our beneficiary designations are correct in all accounts that will bypass probate.

It's also important to make sure that a single executor is clearly identified. Your executor is the person you choose to transfer assets according to the directions you leave in your will. Usually our clients choose a child. We do not advocate for coexecutors. We've seen disasters where siblings who have been close all of their lives become estranged when processing their parents' estate together. It's a process that can bring out the worst in people, and we want to make sure we have the discussion with you in advance so we can identify concerns.

Also, make sure you have a clear reimbursement clause in your power of attorney documents. An executor has a lot of work to do, and it takes a lot of time. In many cultures, it is considered an incredible privilege to be responsible for distributing the assets of the parents and honoring their wishes. In our culture, we generally offer compensation. Be careful offering compensation. It needs to be specific or else it will be abused. Reasonable compensation is the typical, vague language that causes trouble.

What is reasonable compensation? What if you are your parent's executor and you're short of cash, and there is no specific figure in the will or power of attorney documents? Maybe you need a new car and you're \$5,000 short. Does that become the reasonable compensation? Your documents need to state a specific compensation dollar amount or that there is no compensation for time. At minimum, the will and power-of-attorney documents should reimburse the costs that your executor incurs. Finally, your will needs to be clear about the division of your tangible assets. These are things you can touch and feel, such as your car, house, artwork, jewelry, and so on. This is a huge, huge, huge issue! When you have three children, it's easy to split up an IRA or cash in the bank. It's not so easy when the physical possessions have both financial and emotional value attached and more than one child wants each item.

One family had three children who were all piano players. The parents had one Steinway in the house, and the tangible asset section of their wills said to "equally divide" their tangible assets. You can't do that! How do

you split a piano into thirds? That's when a sell provision can come into play. Have the executor sell the item and equally divide the funds. The family with the Steinway had to use this strategy because that piano brought out the animal instinct in all three siblings. None of them could stand thinking that it could go to the others.

When there are multiple tangible assets, one way to prevent conflict over them is to have your kids over for a frank conversation and give them colored stickers to indicate items they want. You make the final decisions about equality and so on, and then you create a list of tangible asset bequests that you include in your will as exhibit A, referenced in the tangible asset section of your will.

Also make sure the house and the cars have sell provisions where proceeds are equally divided. It will be items like the wedding rings and the wedding dress that will be difficult. Those hold tremendous emotional value, and you will need the kids to talk it over and have them decide what is fair.

## **Power of Attorney Finance**

You should have powers of attorney finance in place. These are legal documents that dictate that if your spouse becomes incapacitated, you can take care of business without having to get a court-appointed power of attorney. The powers give you the right to file taxes, sign documents, and conduct real-estate, banking, or

contractual transactions in the name of the incapacitated spouse.

The document should be written in advance and triggered when two doctors certify that you are incompetent or incapable to handle your own financial affairs. We see some powers of attorney finance that are written to activate on signature—meaning the spouse has financial control immediately. This is fine if you have a great marriage and it stays that way, but if the marriage sours...well, we've had some clients who were looking at potentially divorcing any minute and had activated their powers of attorney finance upon signature. Legally, they were holding financial bazookas at each other, able to clean each other out of all their banking and brokerage assets at any time. We do not recommend that.

This is why we urge you to trigger the power of attorney only when two doctors attest that you can't handle your financial affairs. Why two? Because your primary care physician, who knows you best, might not be available. What if you're incapacitated in another country? Do you want a lone stranger making this kind of determination? We like to see two doctors testify that you are incapable of handling your affairs before your finances become controlled by another person.

## **Powers of Attorney Health Care**

The power of attorney health care allows your spouse—or another agent you assign in the power of

attorney—to make health care decisions on your behalf if you are incapacitated until you recover or pass away.

Many people don't differentiate between a power of attorney health care and a health care directive, also called a living will. They feel that either one is sufficient. We disagree. The health care directive states how you want your health care delivered if you are pronounced to be only alive due to a machine. The power of attorney health care lists an agent who is elected to speak on your behalf when you are no longer capable to make your own health care decisions. Again, we recommend it activate when two doctors attest you are unable to make these decisions on your own, and again, two doctors can attest that you have recovered and can again handle your own health care decisions.

Here's a story we often tell to illustrate why a power of attorney health care matters. A husband goes into a coma.

His wife takes him to the local hospital. The hospital asks for the husband's health care directive. After that, the hospital doesn't consult her for her opinion because they have written legal instructions from the person in the coma on what he wants done at the hospital and how he wants to receive his health care. Hospitals and doctors these days practice medicine in a way to avoid litigation.

In order to not to be sued, the hospital must follow those instructions to the letter: Do you want to pull the plug? Do you want hydration? Do you want artificial food? Do you want pain medication? You check off all

these things on what you do or don't want done.

The hospital looks at the health care directive and sees that the husband does not want to be kept alive artificially. The doctors request the family to gather, and they pull the plug. About 85 percent of the time, the story ends there. But this time, it didn't. To the horror of the family, he lingered after they pulled the plug.

When his lips started to crack, the sweet wife said, "Can you give him some ice chips?" The hospital said, "No, no, no. It says right here in the health care directive that he doesn't want artificial hydration." Then the husband started to moan with pain and curl into the fetal position. The wife asked for pain medication and was again denied, because the health care directive said not to do that.

We tell this story to encourage clients to think about this because a health care directive states the intention of the person who's writing it. Had the wife presented her husband's power of attorney health care instead of his health care directive, she would have been the decision maker all the way through and the situation would have been quite different.

A health care directive works for situations when for religious reasons, societal reasons, or cultural reasons, you just can't pull the plug, or you know that your spouse can't pull the plug on you. They can't bear to make that decision. It also exists so that you don't put your children in that situation. In that case, the health care directive provides instructions and takes away that burden.

We talk it over with our clients to see what's right for them. Most of the time, our clients avoid health care directives, or living wills, and go with the power of attorney health care.

Here's how our previous story would have gone with a power of attorney health care. The husband is in a coma. The wife presents the power of attorney health care to the hospital. Now the hospital has to consult the wife on every decision because she acts as agent for all of the husband's health care decisions. Now the spouse is front and center on all the decisions. That's what most people want.

Most people don't have a plan for their retirement and protecting their legacy, or think the asset allocation pie chart is a sufficient plan.

Our clients not only have a plan, but they also have a good idea of how much income they can draw for the rest of their lives, and they have lowered their risk and eliminated interest-rate risk and stock market risk on the assets delivering income for the rest of their lives. They have a plan to minimize taxes for the rest of their lives. Our clients have also done the work to make sure their final documents accurately represent their will for to whom and when assets are to be transferred.

If you have implemented such a detailed plan, then we congratulate you since most have not. You have done the work to enjoy your retirement and have the priceless peace of mind that comes when you have done all you can do. Congratulations!

# **CONCLUSION**

## **Our Commitment to You**

At Decker Retirement Planning Inc., we commit to help all our clients create the best possible retirement for themselves.

We commit to work to the highest fiduciary standards, putting your best interests above ours in every aspect of your plan.

We commit to help you create a principal guaranteed monthly income stream that you can depend on for the first twenty years of your retirement.

We commit to manage your growth portfolio with the rigorous, two-sided investment models that trade on both sides of our two-sided, long-short market. When the markets go higher, you may participate. When the markets go down, you can be protected.

We commit to never use financial strategies that have proven ineffective, like the asset allocation pie chart, the rule of 100, or the 4 percent rule, to guide your plan.

We commit to help minimize your taxes on income and to help identify the possible strategies to grow your income tax-free or with minimal tax consequences.

We commit to help you decide the best way to protect your assets.

We commit to help offer you risk-reduction advice

at every step of your plan.

We commit to work with you and your team to protect your legacy.

Above all, we commit to work hard to help you realize a comfortable, worry-free retirement. We help plan a retirement where you know that no matter what happens in the market, you have a secure income—a retirement that you can enjoy to the fullest in the ways that are best for you.

Absolutely.

These commitments are the lifeblood of our organization, and we incorporate them into every client relationship. In this book, we have done our best to continue to do business by these commitments as much as possible without having had the opportunity to consult with you directly to understand your unique situation and offer customized advice. We hope you've gained valuable information from these pages. We invite you to follow up by contacting our office, and we wish you the best of luck in your retirement planning, wherever your path may take you.

Brian Decker,

Owner & Founder

Decker Retirement Planning Inc.

1-855-425-4566

[www.deckerretirementplanning.com](http://www.deckerretirementplanning.com)



# Acknowledgments

I want to thank my wife and my children, who have stood by me over the years as my team and I have worked to refine the Decker Approach to Retirement Planning. And of course, many thanks to my team at Decker Retirement Inc. for their hard work to always serve our clients' best interests.



## About the Author

Brian J. Decker is the founder and CEO of Decker Retirement Planning INC. He is the author of the Decker Approach. He graduated from the University of Washington with a degree in Finance and Marketing. Brian has over 38 years of asset management experience and has worked for several major brokerage firms. He's been a fiduciary since 1995 and has been in the investment business since 1986. Since becoming a fiduciary, Brian has created several investment models and has honed his risk management skills with a focus on investment models designed to make money in up or down markets.

Brian's passionate about helping people retire with the income they need and want for the rest of their lives. He's also passionate about helping people realize they're taking way too much risk with their portfolios. Brian loves educating retirees on their investment options that make sense and offering an alternative to the buy-and-hold recommendations from bankers and brokers.

Brian loves to play pickleball. He plays tennis, skis, scuba dives, and golfs. He enjoys Thai food. Brian has a supportive wife, Diane, and they have a "yours, mine, and ours" family of eight incredible children. Together they enjoy snow skiing, riding mountain E-bikes and scuba diving.



The information contained in this book is provided by Decker Retirement Planning, a registered investment advisor and Brian Decker, who has over 38 years of experience helping clients achieve their financial goals.

While the information presented is intended to be educational and informative, it should not be construed as personalized financial advice. Your financial situation is unique, and the investment strategies discussed in this book may not be suitable for everyone.

Before making any investment decisions, you should always consult with Brian Decker, one of the advisors at Decker Retirement Planning or another qualified financial advisor who can consider your individual circumstances, risk tolerance, and financial goals.

Investing involves inherent risks, and there is no guarantee that any investment strategy will produce positive results. Past performance is not necessarily indicative of future results.

The information presented in this book is believed to be accurate at the time of publication, but laws, regulations, and tax codes are subject to change. Brian Decker, Decker Retirement Planning, and the publisher are not responsible for any errors or omissions, or for the results obtained from the use of such information.



## Brian James Decker

CEO & CCO

Brian Decker is the founder of Decker Retirement Planning, is a financial planner based in Salt Lake City and author of “The Decker Approach.”

With more than 35 years of asset management experience, including working for several major brokerage firms, Brian has honed his risk management skills and created several investment models that are designed to make money in up or down markets. A fiduciary since 1995, he is passionate about helping people retire with the income they need and want for the rest of their lives.

---

Get The Transparency  
You Deserve™

Scan the QR code to get started.

