

Wealth Management
Preparing For Retirement
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How well we prepare for our future in retirement depends to a large degree on our understanding of the vehicles we have to assist us in this endeavor. Each of us has selected similar requirements. However, the ubiquity ends with individual goals, objectives and needs. These issues may involve family, charitable goals, legacy issues or other issues unique to our person. Regardless, we must at some point deal with some or all of the following questions:

- What amount of dollars do I need to accumulate to retire comfortably?
- Will I be able to retire, and at what age?
- What are the issues and obstacles I will face along the way in attempting to achieve my retirement goals?
- How should I be dealing with those issues?
- What should my portfolio look like now and after I retire?
- Should I consider converting my regular IRA or 401(k) to a Roth program?
- Should I take my deferred retirement account funds out first?
- I have a large concentration of my wealth in one or two assets. What should I do to protect myself? Is this concentration of wealth too risky?
- Do I need to worry about long-term care?
- Do I need to continue my life insurance contract (s)?
- Should I pay off my mortgage?
- How will downsizing affect my lifestyle and income?
- Do I need a living trust?
- How much do I need to save for my children's education?
- If I want to retire before I am 65 years old, will I be able to get healthcare coverage from Medicare? If not, how what can I do to cover that risk?
- Do I need to be concerned about estate or inheritance taxes? If so, how will I deal with these issues?
- I have a special needs child. What can I do to make sure my child is taken care of after my death?
- When should I begin taking my Social Security?
- What happens to my estate if I become incapacitated?

Do these questions sound familiar? Let us review the issues to clarify.

Overview of Retirement Planning

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A common misconception about retirement is that investment counseling regarding retirement savings and other non-qualified investments is the key component to successful retirement plans and long-term wealth management. While investment counseling is a critical component of the process, ***advanced planning is essential to completing the package of retirement planning*** and graduating to a more complete wealth management strategy. ***Less than 7% of professionals offering investment counseling, regardless of their licensing or professional designations, offer advanced planning; an essential element for complete wealth management.***

Successful retirement planning should involve some or all of the following:

- Investment counseling and assurance
- Wealth enhancement, involving more complex tax planning strategies
- Wealth transfer, incorporating estate planning strategies
- Wealth protection, requiring risk management assessment and management
- Charitable giving for those so inclined
- Professional relationship management to oversee and manage a team of investment, legal, tax and accounting, derivative strategists and trust professionals when appropriate
- Periodic review of plans for progress, changes and updates

It is commonplace for larger employers to provide or dispense some or all of their employee benefits through relationships with large wire houses touting free investment decision services. While helpful, this service typically limits advice to investment counseling only, and is not administered within a fiduciary relationship. Large wire houses customarily provide services on a commission rather than a fee base. The advice is considered incidental and carries no fiduciary responsibility.

Independent financial advisors who are fee based are required to comply with the 1940 Investment Advisors Act which requires the advisor to always act in the best interests of their clients, engage in full disclosure and to accept a fiduciary responsibility for their advice.

Professional ***investment counseling*** and assurance may involve some or all of the following elements:

- Investment policy statement incorporating client objectives
- Risk tolerance assessment
- Selection of appropriate investment manager teams
- Selection and oversight of appropriate investments

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- Periodic portfolio rebalancing
- Periodic reporting
- Periodic client reviews

Advanced Planning and true wealth management may involve some or all of the following elements:

- Advanced review of client objectives incorporating estate planning, trust review and development of business and accumulated wealth transfer strategies
- Wealth accumulation analysis
- Advanced tax planning
- Financial independence analysis
- Education planning
- Risk management review including life, disability, healthcare, long-term care and general liability
- Trustee relationship management
- Charitable giving strategies, where desired
- Review of and solutions for concentrated investment positions
- Management and review of professional relationships on client's behalf

Selecting a Wealth Management Professional

Selecting a financial advisor can be a daunting task. You want to find someone who is competent, has integrity, has a good reputation in the community, and can be trusted. Here are some questions and guidelines to consider, which may help with this task:

- How long has the advisor been in business as a professional?
- What kinds of business experiences does the advisor have?
- Does the advisor just provide planning or can they also manage my investment portfolio?
- Is the advisor qualified and willing to work with other professionals to assist me, such as my accountant or lawyer?
- What is the advisors educational background?
- How is the advisor licensed, and what designations does he or she have?
- What types of clients does the advisor work with, and does that fit my needs?
- Is the advisor working in a full or part-time capacity?
- How is the advisor compensated?
- Do I know someone who has worked with this advisor whom I can reference as an independent source?

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An excellent independent source for investor education in this regard can be found on the FINRA Investor Education Foundation at www.finrafoundation.org.

The end result is to find someone who is experienced, competent, can provide the services you require, and with whom you feel comfortable working.

Advanced Planning Alternatives

The size of your Estate, composition of assets and effective stewardship may suggest a need for more advanced planning. What are some of the tools considered to provide this service?

The Living Trust may allow you or your loved ones to avoid cumbersome processes, such as a conservatorship, if you become incapacitated, and probate when you die. Both of these processes can be expensive, time consuming, and are open to public scrutiny. Both require strict court supervision and will drain resources from your estate. Also, your family loses control of your assets during the process. During your lifetime, the trust is revocable and your use of assets is unrestricted. Furthermore, selected asset protection measures may be available to heirs that are otherwise forfeited without appropriate planning. The living trust still provides the one of the most effective vehicle to protect your assets, enhance tax planning and facilitate wealth transfer to your heirs.

Estate taxes are assessed on the value of your assets at time of death. They can be looked at as a “one-time payment for a ticket to the great beyond.” Your assets may be subject to estate taxes based on their values, under the current tax structure. Inherited assets may receive a step-up in basis from the cost of the original owner, providing a valuable tax shelter. If the estate tax laws are rescinded, basis adjustments may become partially or wholly unavailable. Beneficiaries of an estate may then carry forward the basis of their benefactors, against which some amount of arbitrary adjustments may be allowed. We are uncertain how the estate tax laws will change or whether they will remain. Regardless, appropriate planning may help avoid unnecessary loss of hard earned values.

How you decide to distribute your assets prior to and after you are gone are personal matters. An experienced and qualified financial advisor will advise you on efficient and effective means to carry out your wishes throughout your life. Your wishes are appropriately documented in your will and in the codicils that are incorporated in your living trust documents. Whether your legacy involves a transfer of assets to children,

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other family members or your favorite charities or causes, this may change over time. The condition and value of the assets will largely be determined by the stewardship applied towards your investment portfolio during your lifetime.

Risk Management

You have worked hard to acquire the assets you have. It would be cost effective to minimize unnecessary risks that may be avoided with appropriate risk transfer protective measures.

Umbrella liability coverage for your home and auto can be obtained through your property and casualty carrier at nominal cost. The costs per year for such coverage are nominal, especially when you consider the risk of losing your assets in our litigious society.

Life/Disability Insurance

There are two basic types of life insurance; policies with cash value, or permanent insurance, and Term insurance.

Cash value policies include whole life, universal life and variable universal life, to name a few types. These policies combine some form of investment with the cost of insurance and are all established to endow, or equal face value, at age 100. Typically, permanent policy coverage is used to fund substantial probable estate tax liabilities where large estates with limited liquidity will transfer upon the death of the transferor, funds to purchase business interests upon the demise of a business associate, and other legacy bequests. Since the insurance is permanent, the insured does not have to worry about health issues that may prohibit coverage later in life. The cost is much greater, and many Life Agents attempt to sell this product as an investment.

Term insurance, on the other hand, is a form of “pure insurance”, much like your auto or homeowner policies. The cost for term insurance coverage is dramatically less than cash value coverage. This is preferred for legacies where substantial estate tax liabilities or liquidity issues are not anticipated. Term insurance is a preferable vehicle to cover untimely tragedies so that your beneficiaries are not left to struggle meeting everyday living expenses, especially when young children are involved.

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Disability Insurance may be provided by your employer, and should be adequate to diminish the risk of disability until retirement. If not sufficient, then it should be supplemented either by electing additional coverage through an employer, or obtaining coverage through a third party. The balance of your retirement assets should be retained to supplement income in retirement. How much coverage is necessary is an individual matter. There are rules of thumb, but these off the cuff guidelines should be reviewed in conjunction with financial independence analyses to insure sufficiency of coverage.

Long-term Care is a matter that can drain your remaining assets. Statistics show that 1 in 3 men will require some level of care within their lifetimes, and 1 in 2 women. Average stays are less than 3 years. The two most likely alternatives are to self-insure all or a portion of the risk, or transfer the risk to an insurance carrier. This is a readily insurable risk that can be covered at an affordable cost, especially if coverage is obtained before attaining age 60, to avoid an unnecessary invasion of your assets.

Health Care during working years is customarily provided by an employer or if self-insured for this risk, is paid for with revenues from a business endeavor. It is essential to address this issue when planning for retirement to insure that any gaps are covered, especially if one elects to retire before reaching Medicare coverage eligibility.

Investment Counseling for Retirement

Investment counseling, much like Estate planning, involves very personal issues. There is no one size that fits all. Retirement for some may mean pursuing an active alternative career, or simple travel and entertainment. Regardless the choices, one issue remains consistent; will we have enough assets to comfortably live out the remainder of our lives? Your financial advisor should be equipped will help you structure a portfolio and manage that portfolio so that you are better prepared to reach your goals and objectives. Successful approaches are process driven. First steps in the process involve assessing your specific situation; understanding your risk profile, needs, wants and expectations. Next, an investment policy statement will be developed that meets your profile so that appropriate investment guidelines are in place. Thirdly, an asset allocation will be proposed that reflects your risk and investment policy profiles. State of the art stochastic modeling techniques assist the advisor to develop appropriate portfolio allocation models. Lastly, a competent advisor will help you benchmark the progress of your portfolio against the policy to ensure that your portfolio remains consistent and on target. This often times involves periodic rebalancing. Regular annual status meetings to evaluate and

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update your personal goals and objectives, progress and performance are essential for this process to work efficiently.

Investment returns are 92% dependent on efficient asset allocation. Market timing and individual stock selection comprise the balance. Assuming prudent management is applied, the assets accumulated can sustain you comfortably throughout your retirement.

Wealth management requires advanced planning in conjunction with customary investment counseling to complete the planning process for retirement.

We would be happy to meet with you for a discovery meeting to see if we could be of assistance to you. If we find that we are not able to assist you effectively, we will be happy to point you in the right direction.