CHAPTER 22

THE RETIREMENT PLAN EVERYONE WANTS BUT NEVER HEARS ABOUT

BY PAUL NICK

What type of retirement plan do you want? Do you want a plan that only allows you to spend 3 to 4 percent of your retirement savings each year or one that allows you to spend down your savings? I often jokingly tell people, if you don't spend your retirement money, your children will be happy to after the government gets its share. While there is an element of humor to that statement, it is also packed with truth. Often people don't want to spend their money because they are afraid of running out of money and leaving their surviving spouse with nothing.

So how long does your money need to last? Until you and your spouse die, right? I think most people would agree that this is a true statement. Today, if you and your spouse make it past age 65, one of you has a 50 percent chance of living past age 90. It's typically the female–sorry, guys. So, if you don't know when you are going to die, then you have to make your money last a long time. Unfortunately, this fact alone will put most people in financial handcuffs throughout their retirement.

Let me ask you a few other questions. If you knew without a doubt that all your assets would be replaced 100 percent after you died, wouldn't that free you up to spend down your savings throughout your retirement years? If your spouse and family were taken care of, wouldn't you have the freedom to spend your money and enjoy your retirement? Isn't that what retirement should be about?

In this chapter, I will be sharing with you a simple way to get the retirement plan that allows you to spend your money, and you can do it without any additional out-of-pocket costs.

CONVENTIONAL FINANCIAL PLANNING HAS FAILED AMERICANS

I don't know you personally, but I can probably tell you what your retirement plan looks like. You have a 401(k) or some other qualified plan that you have been funding for years because that is what everyone else is doing. You may have an IRA or Roth on your spouse, you have been putting some money in 529 plans for your children's education and you have life insurance through your employer just in case you don't make it to retirement. All of your investment money is typically in mutual funds. You have also been told that the market will average 8 to 10 percent per year over the long term and you should be able to live off the interest of your savings when you retire. So how is that working for everyone? Folks, this is not a retirement plan; this is called a "hope and pray plan." Yet this is what 90 percent of working Americans are told they should be doing to plan for their financial future. Why are the majority of Americans' savings funneled to mutual funds with massive risk, fees and tax implications? Why are there no guarantees for Americans' retirement? And who benefits the most from this type of plan? Is it you or the people who run these plans?

If you could think of the perfect business model, what would it look like? You would probably get the government to create tax incentives for using your product. You would entice participants with the potential for higher rates of return with your particular investments (i.e., mutual funds). You would use arbitration clauses so the customers could never sue you if you made a mistake or lost their money (Google "New York Times When Winning Feels a Lot Like Losing"). You would have the government create rules and penalties for early access to the money. Then you would charge a nice fee for many, many years regardless if the account performs well or not. Does that plan sound familiar? The only guarantees in a qualified plan are that the government will get its taxes, the mutual funds will get their fees and you, my friend, will put up all the money and take 100 percent of the risk. This sounds more like a retirement plan for the financial representatives than for you.

A LOOK AT THE 401(K) IN ACTION

If tax rates continue to go up, which is likely, why would anyone push a large amount of income to the future where it will be taxed at a higher rate? That just doesn't make sense. When would you rather pay taxes, while you're working or in retirement? Let me clarify for you. You are not saving taxes, you are deferring taxes to a later date and the IRS will tell you at that time what rate you are going to pay. If you are in a high tax bracket today and knew taxes were going down in the future, then it might make sense. But you are likely in a lower tax bracket today than you will be in the future because the government is not slowing its spending. See Figure 1 and 2.

Figure 1: You deferred $75,000 so you could pay the IRS $174,000. Huh?

Annual Contribution	$12,000
Current Tax Bracket	25%
Withdrawal Tax Bracket	25%
Years Until Withdrawal	25 years
Investment Return	6%
Account Balance	$697,877
Your Share	$523,407
Amount Due IRS	**$174,469**
Apparent Taxes Deferred	**$75,000**

Figure 2: After-tax contributions that come out tax-free are exactly the same as before tax contributions that come out taxable, given the same tax bracket and interest rate.

Annual Contribution	$12,000		
Current Tax Bracket	25%		
Withdrawal Tax Bracket	25%		
Years Until Withdrawal	25 years		
Investment Return	6%		
		Tax Def. Cont Taxable WD	*After Tax Cont Tax-Free WD*
Equivalent Contribution		$12,000	$9,000
Gross Withdrawal		$697,877	$523,407
Amount Due IRS		**$174,469**	**$0**
Actual Net Withdrawal		**$523,407**	**$523,407**

So, if we are not saving the taxes we thought we were, and we will end up with the same spendable amount, does it still make sense to tie up all of our savings in a tax-qualified plan?

Today, when a corporation hires a new CEO, some compensation guarantees have to be put in place; otherwise, it will be difficult to find someone. Many of these guarantees come in the form of retirement packages from the life Insurance industry using pension annuities and permanent life insurance. The banking industry purchases huge amounts of permanent life insurance on the top 25 percent employees. For example, Bank of America has more than $16 billion in cash values. I guess Bank of America doesn't think cash value life insurance is a bad deal. If it did, it certainly wouldn't have $16 billion of the bank's money in it. This can be verified on the FDIC website by pulling up its financials. Even our representatives in Congress and the Senate get a lifetime pension after serving only one term. Why are the wealthy and government officials setting themselves up with guaranteed income accounts for retirement, and we get to wing it with a 401(k)? Annuities and properly structured permanent life insurance contracts provide lifetime financial security, period.

Only four financial products offer growth that can be tax-free: municipal bonds; Roth IRA; Roth 401(k); and permanent life insurance. That's it!

Naturally, people tend to be skeptical at the first mention of life insurance or annuities. The media tells everyone that life insurance is a bad deal and annuities have high fees and surrender charges, blah, blah, blah. Yet people will continue to send hard-earned dollars to Wall Street even after they see blatant fraud and thievery of clients' money (e.g., Madoff and Stanford). The reality is that people are not getting the whole story.

Let's forget about life insurance for a minute and just talk about benefits. In any vehicle one would use to accumulate money over time, a major desire would be to maximize benefits in addition to achieving a decent rate of return. If you could get any benefits you wanted, what would you ask for? Most people can only come up with three or four items, max. Here is a list of what everyone would want if they could get it:

- Tax deferred growth
- Access to your principal and gains tax free, under current tax law

- A competitive rate of return
- Interest guaranteed
- Invest in anything you choose
- Protection from creditors and judgments
- High contribution limits
- Access to the money
- Use as collateral
- A way to bypass estate tax
- High liquidity options
- Disability waiver (if you couldn't work due to disability, the financial institution would fund your plan to age 65)
- Tax deductibility

So, how many of these benefits do you get with your current plan? If you're like most people with a 401(k), you have three of these items in your current plan: tax deferred growth, protection from creditors and tax deductibility.

A properly structured permanent life insurance contract with the right company can provide all the benefits mentioned above, except contributions to a life insurance contract outside of a qualified plan are not tax deductible.

There are two types of life insurance companies, stock and mutual. Stock companies are owned by stockholders and the stockholders get the dividends. Mutual companies, on the other hand, are owned by the policy holders. There are no stockholders, so policy holders receive the dividends from the company.

My family has a long history of policy ownership. Our family holds close to 50 policies among my parents, the adult children and the grandchildren. In 1969, my Dad purchased a whole-life insurance policy from a mutual insurance company a few months before I was born. This particular policy had an annual premium of $1,054.33. However, he only paid the premium for 19 years. He had contributed $20,032.27 of his own money to this policy over that 19-year period and hasn't paid a premium since 1988. In 1988, he changed the dividend on the policy to pay the premium and also to go toward increasing the cash value. The dividend paid on this policy in 2012 was $5,598.02. That's 5½ times the original annual premium. Additionally, the cash value in that policy as of last year's statement was at $153,058.26 and it has a death benefit of $237,271 (the original death benefit was $100,000). The cash value increase on this policy last year alone was $7,598.32. That is equivalent to about a 5 percent net rate of return. If my father would have cashed in this policy in 2012, the company would have sent him a check for $153,058.26. What was the cost of Insurance over that 43-year period? Nothing. He made money, right?

All of the policies my father owns today are in addition to all his other investments, so this is not an either/or situation. It should be looked at as a way to enhance your current retirement plan.

So what about "Buy Term and Invest The Difference?" This has to be one of the best marketing slogans anyone has ever imagined. When I ask clients what the "difference" was, they can never tell me because they just bought the term insurance and don't know how much more they would have paid for permanent insurance. One problem with term insurance is that only 1 percent of all term policies ever pay a death claim. The insurance companies know this and that is why it is so cheap initially. However, it's not so cheap in your 60s and 70s when you're closer to life expectancy. So if your financial plan includes buy term and invest the difference, it means that at some point in the future you will be self-insuring, right? If you don't have life insurance, and you take on that risk yourself, you are self-insuring. There is nothing wrong with self-insuring, but there is a cost to this, which is much higher than permanent life insurance. Here's why: If you don't have life insurance, you can't spend down your assets because we have to leave something for the surviving spouse to live on. So without life insurance you can only take 3 to 4 percent per year. However, with life insurance, you could take 5, 6, or 7 percent. At least you have the option to take a higher income.

By the way, the 4 percent rule is now being challenged (Google "Wall Street Journal Say Goodbye to the 4% Rule for Retirement")

Figure 3: Self-insuring is also paying an insurance premium.

WITHOUT LIFE INSURANCE		
Account Value		$1 million
Withdrawal Rate	4%	$40,000 per year
WITH LIFE INSURANCE		
Withdrawal Rate	7%	$70,000 per year
Difference		**$30,000 (Self-Insured Premium)**

What do you call it when you give up $30,000 in income to provide a benefit to your spouse after you die? That is called "life insurance" and you will pay a premium either way. You either give up income in retirement or you send income to an insurance company. What if you could do it for $15,000 with the insurance company? You could take $55,000 of income and still have access to the cash in the policy. That is a 37 percent increase in your income.

Long-term care (LTC) is another area where I see people self-insuring when they don't have to. You don't have to be old and living in a home to use long-term care insurance. You could bump your head, fall down, have a stroke, etc. However, something major could wipe you out. Many planners are failing to educate their clients on alternatives to paying LTC premiums. In the past, our only option was to pay a premium for life, and then if we didn't use the coverage we lost all that money. There is new and improved long-term care that allows you to place a specific amount of assets with the insurance company or pay a premium for just 10 years. Here is how it works. Recently I helped a friend of my father who had a traditional LTC policy for which he was paying around $7,000 a year. The problem is that his premiums were not guaranteed and could go up substantially in the future. The other problem was that his benefit was only for three years. Here is how we saved him $140,000 and increased his cash flow by $7,000 per year:

Old LTC Policy	$7,000 per year for 20 years = $140,000 in premiums
	If he doesn't need the coverage he loses $140,000
New LTC Policy	One deposit $130,000
	Maintains access to funds
	Initial monthly benefit grows to $11,000 per month at age 83
	Money back any time
Savings @83	**$140,000**
Cash Flow Increase	**$7,000 per year**

This brings me back to my original question. What kind of retirement plan do you want? One that is restrictive or one that lets you spend your money? If you knew that your spouse would be taken care of and that the assets you spent in retirement would be replaced 100 percent, would that free you up to spend your money the way you always wanted to?

What will your retirement picture look like?

So now you know the retirement plan that everyone wants is one that lets you spend your money. Consider the above recommendations to enhance your plan.

Happy retirement!

About Paul

Paul J. Nick, owner of South Texas Financial Group, has practiced as a financial strategist and retirement specialist since 1993. Paul has successfully designed progressive strategies that have continuously increased his clients' wealth (even when the markets tanked) and provided certainty for their income during retirement.

His experience and customized approach empowers his clients to embrace revolutionary planning concepts that instill wealth-building habits, provide peace of mind and ultimately lead to an abundant lifestyle.

Paul is unique in that he grew up in the financial services industry. Paul's father built one of the largest financial services companies in Texas that specialized in a conservative approach to retirement planning.

Paul has been a student of nutrition for more than 30 years. His health and wealth strategy helps clients understand the importance of eating quality, nutritious foods and staying away from the foods known to cause health issues. Paul states, "If we can help our clients stay out of the doctor's office, not only will they feel better, they will have more money to spend on themselves and their family."

Paul is also the founder of Houston Energy Corridor Connections, a 5000+ member networking group on LinkedIn, which hosts four live networking events for the Houston energy industry each year. The focus of the group is to bring people together from the energy industry and help them build their personal networks and improve their businesses and careers.

A former Marine and avid pilot, Paul has logged more than 600 hours in high performance aircraft. When Paul is not working with clients, he enjoys flying, spending time with his family, coaching his daughters in soccer and volunteering at their school.

Paul lives in Houston with his wife, Kim, and daughters, Kennedy and Avery.