Joel Isaacson & Co.

REAL FINANCIAL EXPERTISE. PERSONALLY DELIVERED.

Ten Frequent Retirement Mistakes You Should Avoid

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

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

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

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

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

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

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

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

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Despite uncertainties, including a U.S. presidential campaign that has unfolded as the most unconventional in recent memory, the S&P 500 Index rose almost 4% in the third quarter. Volatility remained at low levels through July and August. In September, stock investors registered high anxiety, with markets rising and falling sharply in response to any oil-related headlines and any suggestion of interest rate hikes. European stocks outperformed the S&P 500 for the third quarter. They still trail U.S. stocks for the year. Emerging-markets have been particularly striking, up 17% for the year. Yields on U.S. 10-year Treasuries rose to as high as 1.75% during the quarter on worries over central bank policies, but the Federal Reserve's decision not to raise interest rates in September soothed markets. A December rate rise is still on the table, and markets remain attuned to this possibility.

Successful investing requires the discipline to resist trading on emotion, focusing instead on long-term drivers. Even in an economy such as the U.S., equities have fallen at least 10% every 16 months on average since 1950. Bear markets (20% or greater declines) in the U.S. have happened about every seven years on average. In most cases you can't predict what the cause of the volatility will be or exactly when it will hit. Even if you could successfully call it, you'd need to also successfully time your re-entry so as not to miss out on the subsequent gains—and do so consistently and repeatedly over an investment lifetime. That is not realistic, which is why our investment approach is based on a range of potential outcomes and a longer-term time frame.

7 Late Moves To Cut Tax This Year

As the days left in the year dwindle to a precious few, there's still time to implement tax-saving strategies. Here are seven possibilities to consider:

1. Harvest capital gains or losses. If you have prior gains from securities sales, you might now sell other investments at a loss to offset those gains—and up to $3,000 of ordinary income. Or you could realize gains now to be absorbed by losses you've already taken. Profits on securities you've held at least a year that aren't offset by losses will be subject to the maximum long-term capital gain rate of 15% (20% if you're in the top tax ordinary income bracket).

2. Boost 401(k) contributions. Adding to your 401(k) plan increases your nest egg for retirement while likely reducing your current tax bill. For 2016, you can defer up to $18,000 of pre-tax salary to a 401(k) ($24,000 if you're age 50 or older). One way to find that money: Use payroll tax savings that you get when you clear the Social Security wage base of $118,500.

3. Pay next semester's tuition. Parents normally can claim one of two higher education credits or a tuition deduction for students in college. But each tax break is phased out based on your modified adjusted gross income (MAGI). If you're under the MAGI limit, consider paying the spring semester's tuition in December—because the tuition deduction is scheduled to expire after 2016.

4. Give more to charity. One fast way to reduce your taxable income at year-end is to donate money to a qualified charitable organization. I you keep the proper records, you generally can deduct the full amount of the donation on your 2016 return. This includes contributions charged to a credit card late in the year even if you don't pay off the charge until 2017.

5. Accelerate tax payments. Prepaying state and local taxes that are due on January 1, 2017, could increase your deduction for those taxes for 2016. This is a common strategy for reducing the current year's tax bill, but you'll need to do it again in subsequent years to avoid inflating future taxes.

6. Go to the doctor or dentist. Medical and dental expenses are deductible only to the extent that they exceed 10% of your adjusted gross income (7.5% if you're age 65 or older). If you're at or near that threshold for 2016, you could schedule non-emergency visits, such as physical exams and routine dental cleanings, to take advantage of this deduction.

7. Support an elderly relative. You generally can claim a dependency exemption for an elderly relative only if you provide more than half of the person's support for the year and his or her taxable income doesn't exceed the personal exemption amount of $4,050. If it makes sense, chip in a little extra support this year to clear the half-support mark. ●

Easier Rules On IRA Rollover Waivers

A new IRS ruling may provide tax relief on late rollovers by some IRA owners.

Normally, if you take money out of your IRA, you're responsible for tax on the distribution, plus a potential 10% penalty if you make an early withdrawal – before you reach age 59½. But you can avoid current tax liability if you roll over funds from the IRA into another IRA within 60 days.

The surest way to do that is to make a "trustee to trustee" transfer, from one financial company to another. If the money never touches your hands, none of it will be withheld for possible taxes. However, if you have an immediate but temporary need for money, you could use the rollover process to give yourself a short-term loan—you can have funds paid to you and then redeposit the same amount in an IRA within 60 days. Yet while you won't ultimately be taxed on the rollover, 20% of the amount that you withdraw will be withheld for taxes; you'll need to recoup the money when you file your tax return.

It's easy to miss the 60-day deadline. You simply might forget about it or you could be distracted by other circumstances. And if you do fail to redeposit your withdrawal amount on time, you'll be taxed on the distribution at your full income tax rate.

Is there anything you can do to avoid that tax if you inadvertently fail to meet the deadline? The IRS has been notoriously tough about handing out waivers to tardy taxpayers. Normally, a waiver will be granted only if you suffer a casualty, disaster, or another event beyond your reasonable control.

The IRS has established several factors to be used in waiver determinations, including the time elapsed since the distribution and whether the inability to complete the

Dynasty Trusts: A Gift That Keeps On Giving

Would you like your assets to last forever? Of course, there are no guarantees, but a "dynasty trust" could help you preserve wealth for your heirs indefinitely. As the name implies, this type of trust is designed to span several generations, barring drastic changes in applicable laws or your family's financial circumstances.

Under a common law principle known as the "rule against perpetuities," trusts normally are required to have a beginning, middle, and an end. This rule was adopted in many states, establishing an expiration date for trusts of 21 years after the death of a potential beneficiary who was alive at the time of the trust's creation. California and other states have adopted a variation of that rule with a limit of about 90 years. Delaware is among a few states that have repealed the rule completely and actively encourage people to set up dynasty trusts in those states.

With a dynasty trust, you transfer selected assets—perhaps stocks, bonds, real estate, or a combination of those—to a trust managed by an independent trustee. The trust can be created as an "inter vivos" transfer during your lifetime or a testamentary transfer through your will. Once established, the trust is irrevocable—you give up control over the assets and the right to change beneficiaries.

The trustee invests the trust assets. Depending on the terms of the trust, income may continue to accumulate within the trust or it could be paid out to beneficiaries, usually your descendants. You might name your adult children as the initial beneficiaries, to be followed by your grandchildren and great-grandchildren. The trustee also may have discretion to invade the trust principal for the health, education, support, and maintenance of beneficiaries or for other reasons.

By letting you designate the ultimate beneficiaries of the trust at the outset, this arrangement gives you some control over where the assets end up. In addition, a dynasty trust could help you protect some kinds of assets from creditors.

But a dynasty trust also may help reduce potential estate taxes. Under current rules, everyone is entitled to a generous estate and gift tax exemption of $5.45 million in 2016, which is indexed for inflation, and likely will rise in future years. This exemption is "portable" between spouses, which enables you to use any leftover amount not used when your spouse died. Similarly, while there is a generation-skipping transfer tax (GSTT) that applies to most transfers that skip a generation, including those made to a trust, that same exemption amount applies to the GSTT.

When you transfer assets to a dynasty trust, the transfer is potentially subject to federal gift tax—if its value exceeds $5.45 million. But future appreciation of those assets won't be taxed, and that growth could benefit multiple generations of your heirs.

For example, suppose you and your spouse transfer $10 million to a dynasty trust. That gift isn't taxed because it is less than the total $10.9 million combined exemption that you and your spouse are allowed. But by the time both of you have died, suppose the assets have grown to be worth $5 million more than your combined exemption would have covered. Without a dynasty trust, your family would have to pay a 40% estate tax, or $2 million. The estate tax bill for the dynasty trust is zero.

Of course, there are other considerations, including income taxes, which the trust must pay each year on investment earnings. For this reason, dynasty trusts often are funded mainly with assets that don't produce current income—growth stock that doesn't pay dividends, for example, or tax-free municipal bonds. Life insurance policies also could be transferred to a dynasty trust.

Just keep in mind that these trusts are complex arrangements, and you'll need the help of an experienced estate planning specialist to create one that can benefit your family for generations to come. ●

rollover was because of death, disability, hospitalization, incarceration, restrictions imposed by foreign countries, or postal error. If you miss the 60-day deadline because of a mistake by a financial institution, you can get an automatic waiver.

Now the IRS is going one step further. It says, in Revenue Procedure 2016-47, that a taxpayer can "self-certify" a waiver by sending a letter to a plan administrator or an IRA trustee, custodian, or issuer. The IRS has developed a model letter for this purpose.

To qualify for the waiver:

- The IRS can't have previously denied a waiver request with respect to all or part of the same rollover.
- The deadline has to have been missed because of one or more of the reasons described above.
- The rollover must be completed within 30 days after the problem that resulted in missing the deadline has been resolved. ●

Tax Rewards For Charitable Trusts

Are you thinking of giving a large gift to charity? A charitable trust can help you satisfy your philanthropic goals, preserve wealth for your heirs, and collect tax breaks, all at the same time. One of the most popular of these is the charitable remainder trust, or CRT.

A CRT requires you to give up control over the assets that you transfer into the trust and it's irrevocable. There's no going back, so make sure this charitable vehicle suits your needs before you commit to it.

Typically, you will set up a CRT with a particular charity you want to support. The charity must be approved by the IRS as a tax-exempt entity. During its term, you (or another income beneficiary or beneficiaries that you specify) receive regular payouts. The CRT may last for terms of years or for your lifetime. Finally, when the trust ends, whatever is left—the remainder—goes to the charity.

There are three main tax advantages to this setup:

1. Regular income tax: You're entitled to a current tax deduction for the projected value of the remainder that will go to the charity at the end of the trust's term. Your tax adviser and charity officials can help determine the amount of your deduction.

2. Capital gains tax: If you transfer appreciated assets into the trust you won't owe any tax on the appreciation. And if the charity sells property from the trust and turns it into cash, you don't have to worry about capital gains tax then, either. But you pay income tax on the annual payments you receive.

3. Estate tax: When the remainder eventually goes to the charity at the end of the trust, those assets are removed from your taxable estate. So there aren't any estate tax concerns with a CRT.

Let's not forget that you'll be receiving annual income from the CRT. It can be structured in one of two ways, which must be determined when you set up the trust. You can't change your mind later. Here are the two ways:

- **Fixed annuity method:** The CRT pays out a fixed dollar amount each year. So even if trust earnings fall, you'll still receive the same amount of money.
- **Percentage of assets method:** Another version, which is more common, is to base the annual payment on a percentage of assets. For instance, you might arrange to receive 6% of the value of the trust assets each year. Accordingly, your annual 6% payments generally will provide larger payouts over time, assuming the assets go up in value, but the amounts are based on market conditions.

In any event, the IRS requires you to receive at least 5% of the value of the trust each year and the charity's remainder value must be at least 10% to preserve the tax breaks.

This is just a brief overview of CRTs. For more information about this rewarding tax planning technique, reach out to your advisers. ●

Retirement Mistakes To Avoid

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

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

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

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

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