

RMD Seminar Script

Introduction

Tonight we're going to focus heavily, primarily, on required minimum distributions, what they mean to you, and how to offset the effects of any taxes that they might have. Specifically, you're going to walk away with several important learning's. First, is how to calculate your required minimum distributions. Second, when you have to take the RMDs and why. Third, is the effect that they might have on your income. In other words, how much extra income tax you may have to pay because of them. By the way, it also takes into account taxation on your Social Security. Fourth, your beneficiary designations: you'll learn how to make sure your beneficiaries are set up the right way to maximize tax deferred benefits for your heirs. And, last but not least, the fifth takeaway is to determine how your asset allocation should look as you get close to the age for minimum distributions.

Now, to start, I would like to tell you a little about my background and why I'm up here presenting this to you. Our firm, (insert name), is located at (insert address). I've been in the financial business now for (insert number) years, and my personal background is that I'm a (insert top credentials, specialty areas in financial planning). Obviously, an important part of financial planning is helping people with their RMDs, or required minimum distributions. We have about (insert number) people working in our office, and our niche is that we specialize in working with retirees and people who are within five years of retirement. This is why we do a lot of education on things that are important to retirees, like required minimum distributions; Social Security, determining when to choose Social Security, and how much to choose; how to reduce your taxes; how to plan your estate, etcetera. Okay? Any questions you have about us or my background before I get started into the meat of the material this evening? Okay, great.

Now, I just want to see a quick show of hands – please raise your hand if you haven't had dinner yet and you plan to go home and eat dinner after this event. Excellent! Well, I plan to get all of you out of here right around 7:45 to 8:00 – just kidding. I want to draw your attention quickly to your packets, please. Inside your packet, you will find some various pieces of information for you to read. But right now, I'd like you to all look at the handout that is on the right hand side in the back. The handout that says, "What Baby Boomers Need to Know About RMDs". And that looks like this. (Hold up handout). It's also designed to help you take notes. You can follow along with this and take notes on whatever topic you are interested in. Also, before we close the folders, however, I want to draw your attention to the response sheet that is sitting on the right hand side in the back. It looks like this. This response sheet is actually going to be a pretty important tool for us, as well as it's going to be an important tool for you. Whenever we do a workshop, we ask for your feedback, in terms of what we can do to make

the workshop better. We use them for all of our workshops and we make changes on a regular basis, based upon your recommendations. Also, as a result of this program this evening, you will have an opportunity, if you'd like, to come see us one-on-one at our office at absolutely no cost or obligation to further review the RMDs. We actually have some sophisticated software packages that will help us determine what your RMDs will be and what tax implication you may have overall on your income April 15th of whichever year you are taking the RMDs. So, at the end of the evening tonight, you're going to have an opportunity to give us some feedback on this evaluation form, and also to schedule that complimentary, no obligation, no cost meeting with us, if you wish. So, let's go ahead and put the sheet back in there for now. We'll get back to it at the end of the program. Let's take this handout here that's six pages long, seven with the cover sheet. And if I could get you to just flip it over, go to topic number one. And let's go over the required minimum distribution basics.

1. RMD Basics

Why do RMDs exist? The government was kind enough to give us a break so that when we put money into the IRA, we put into the 401ks. And all that money is pre-tax money. The idea behind required minimum distributions, or RMDs, is that the government wanted to give us a tax incentive to save for retirement. So, if we're in the 30% tax bracket, we put money into an IRA or a 401k, tax deductible. While we get an entire dollar going into that IRA or 401k, the reality is, it only costs \$0.70 because they're before tax contributions. And now that so many of us take advantage of traditional IRAs or 401ks, the government is helping us save, and that's nice. However, the government really truly wants this to be retirement money. In other words, they don't really want this to be money that you never spend. They don't really want it to be money that you leave for your heirs; they want you to spend it. Of course, what's happened lately with life expectancy? Have people started to die sooner, or are people living longer? Longer. The government knows this, and I think in some ways, their fear is that if you live to be 95 years old, they've got to pay an extra 25 years to get their tax dollars. So, that's why we have these things called required minimum distributions, where you have to start taking out little bits and pieces after age 72 from your IRA and start to pay tax on those little bits and pieces, whether you need the money or not. Now, to the government's credit, they did come out in more recent years and lowered the minimum distribution amounts. Because what happened is, minimum distribution was higher on a percentage basis, and what that meant was, as people were living longer, there were some people who were legitimately worried about depleting their IRA before they died, before their life expectancy. So, the government went ahead and lowered the minimum distributions to significantly reduce the chance of that happening. But bottom line is, these are not designed to be an inheritance vehicle, these are designed to be retirement income vehicles. Thus, the reason they want you to take these distributions. Make sense so far?

Well, when do I have to start taking these RMDs? The general rule is that you have to start taking them at age 72, specifically, the year in which you turn that age. So, that means, for example, that if you turn 72 on June 30th of this year, then you've got to take a distribution sometime this year. If you turn 72 on July 1st, then you get to wait until next January, because you're not 72 and a half until January. So, the general rule is that it's the year in which you turn 70 and a half. Now, they do have kind of a technicality that flies in the face of that, and that is where they say that the last date is April 1st following the year in which you turn 72. So, in other words, if you turned 72 this year, you can wait to take the distribution as late as April 1st of next year. So, it's technically by April 1st of the year following the year when you turn 72. But, in reality, most people don't wait until that following year, and here's why. If you wait to that following year, then you've got to take two distributions that year. One is the previous year, in which you turned 72, and then one for that year. So, as a practical matter, most people take the first one in the year in which they turn 72, and then one every year thereafter. Does that make sense? I think the April 1st legislation was just kind of a catch all in case somebody messed up and had forgot to take it, that they take it the following year. I think that's probably the method behind it. There is one exception, by the way, and the exception is if you are employed somewhere and you don't own your own the business and you're still working. Then, you're still working past 72, and you do not have to take required minimum distributions on that particular retirement plan. You still have to take required minimum distributions for other retirement plans, such as your IRA, but in terms of the company for which you're currently working, you do not have to take RMDs until you actually retire. And so, that may apply to some of you. If you're a business owner, that doesn't apply. If you're the business owner, I guess the government figures you're probably making enough money where you can take your RMDs out. Fair enough?

How much will the RMDs be? Well, when the government reset this formula the last few years, they made it much, much easier. The tables were much more complicated before. What the government actually did was simplify it and stretch it out. So, in other words, your RMDs went down significantly. But, also, they made it simpler. What they did was, first of all, they assumed that we're going to live a lot longer than we really are. And how did they do that? Well, in part, they assumed that everybody is married to someone 10 years younger than them. And the methodology here is to say, look, sometimes people have spouses the same age, three years younger, five years younger. If we assume they're married to somebody 10 years younger, that will mathematically extend the life expectancy for that couple, which is going to lower the distributions. Now, there is an exception here. If you are married to a spouse who is more than 10 years younger, then you can go to a separate table and take an even smaller minimum distribution. So, how do you figure it out? Well, you take the IRA balance, or the retirement plan balance, on December 31st of the previous year, and then you simply divide that by your IRS assumed life expectancy. And I say IRS assumed life expectancy because it's not, again, an actual life expectancy; it's a combined life expectancy of you and a hypothetical spouse 10 years younger. You see an example of the formula here, which we have a sample of on the

screen. This is called the uniform table. And notice that with this table, the numbers – the life expectancies – go down by less than 1% for every year. For example, age 72, the life expectancy is 27.4. One year later the life expectancy is 26.5. Notice how it's only going down by 9/10 of a percent, even though you've gotten a year older? You notice that? The reason is because they recalculate the life expectancy every year. Now, why'd they do that?

Well, life expectancy of 27 years. Raise your hand if you know somebody or have known somebody who's lived past age 97. So, they recalculate that every year. That means, by definition, by age 97, someone who has to deplete their entire IRA, would be down to zero value. And what that means is that someone could be 98 years old and virtually penniless. So, because of that, they recalculate this every year. Now, what do I mean recalculate? Well, there's an interesting thing that happens statistically. It is that every year that you live, your average life expectancy gets a little longer. Because, by the time you've reached age 71, there are some people over here that were in this 27 year statistic who didn't live to be 71. They died at age 70. So, now the pool of people who are still alive at 71, that life expectancy is a little longer. So, this person at age 72 is expected to live to 97.4; this one here is expected to live to 97.5. They're expected to live 1/10 of a year longer because they made it to 71 and some of the people didn't. If you don't understand all that, it's not a big deal. Just understand that they recalculate it every year so that when you turn 97, you won't have an empty IRA. Make sense?

Now, why make a big deal about this? Because there are some situations where they don't recalculate it, where they literally do force the IRA to be depleted, and we'll talk about that later. So, if you do the math, if you divide the RMD -- the account value at the end of the year, you divide it by 27.4, which will be the value, by the way, this isn't the value here at age 72, this is actually using somebody I guess age 74, 75, who actually has a 24 or 25-year life expectancy. Again, you divide the IRA balance at 12/31 by 27.4, meaning your RMDs in the first year is slightly less than 4% of the account. But, because your life expectancy does go down every year, what happens to the percentage RMD that you need to take every year as you grow older? It goes up, yes.

Keep in mind, everybody, this is a required minimum distribution. Some of these people will say, "How much can I take?" Well, as long as you're over 59 and a half years old, you can cash out your entire IRA if you're willing to pay the tax. Most people don't do that because they don't want to pay the tax. Which, by the way, is why IRAs are good income vehicles, but they're terrible lump sum deals. You know? You don't want to buy a car with your IRA. Because if you want to buy a \$25,000 car, you may have to withdraw 35,000 or 40,000 before tax. You certainly don't want to buy a used piece of property with an IRA for the same reason. IRAs are a good income instrument if you take them out over time. Which is why, most of you who are retired and about to take RMDs right now, you might be too late to do anything about this, but I highly recommend that the people who are younger, to balance off

your tax deferred money to your IRA money. I recommend this because you put all your money into IRAs and 401(k)s during your working years, it's great immediate gratification, you get that tax break. But the problem is, then you retire, you have no non-IRA money, then virtually every penny you need drawn is fully taxable. And that starts to get a little painful, especially when you see tax brackets going up and with the national debt where it is, you tell me what you think: are tax brackets in the future are going to go down or going to go up? So I would say that deferring taxes now would be a little more painful. It's great you received a break up front, but eventually it will catch up. Okay, any questions before we move on?

This is the IRS uniform table we're talking about here. Again, that's the divisor; we take the amount and divide it by that number. This is your assumed life expectancy: 70, 71, 72, all the way down. And again, notice at age 97, it's not zero. See? Even at age 115, if you should be so fortunate, or unfortunate, as the case may be depending on your philosophy., the divisor is only 2.9. So that means by the time you hit 115, you would only have to take out half of whatever's left. The government's goal is not to bankrupt you; their goal is to accelerate the taxes in case you live to be 115. Now, what if my spouse is more than 10 years younger than me? Well there's another table where you can literally put your life expectancy and your spouse's life expectancy and create the formula. And before, whenever you wanted to factor your spouse's age, you had to go to this table. The government made it a lot easier because they did it in one table for everyone who isn't married within 10 years of themselves. But if your spouse is 10 year's younger or more, now you're on the second table. The math is the same: basically taking the balance of your IRA qualified plan accounts, December 31st, dividing it by joint last that survivor expectancy table, and then you get your RMD. Same thing with a different table. So for example, you might have a life expectancy of 34.8 years; it might be more than 27 depending on the age difference. And this was the example of the table. So as you can see right here, where if you took a 70 year old and a 59 year old, there's more than a 10 year difference. 72 years old and a 59 year old, now it's not 27.4; it's 29.5. And if that 72 year old is married to a 58 year old, it's 30.3. So again, that would imply them telling a few people that a majority can probably deal with basic uniform tables. Fair enough? Now, these are some details that you would need to be aware of. Can an annuity be used to cover required minimum distribution?

2. Where can I take my RMDs from and where can't I?

Now the question is, can my annuity be used to cover my RMDs? That's something that some people do. Some people say well, "If my RMDs in the first year, let's just say, are 3.6% on \$1M..." – which is about right – that's about \$36,000 a year on \$1M. So some people would say, "Well why don't we take half of my money and put it into an annuity? Then you have to get all \$36,000 a year, that will satisfy my entire RMD, and then the rest of my IRA and the 401(k) can grow tax deferred." I've seen a lot of financial advisors create this financial plan for people. The problem is, though, in many situations, it

doesn't work. Especially in the case of an immediate annuity. Anybody want to take a stab at what an immediate annuity is?

Basically, when you give a lump sum of money to an insurance company, and in exchange for that, they give you a pension income, they give you a lifetime guaranteed income. You have a guarantee that you could never outlive this income no matter what happens, which is kind of nice – it's guaranteed forever. But once you buy that immediate annuity, which by the way is also called an annuitization if you've heard that term, you lock yourself out of the principal forever because you have irrevocably given that lump sum in exchange for a lifetime income stream. So, when you have an immediate annuity, a plan that I've seen advisors put together that doesn't work for RMDs, but I've seen it happen like this. So okay, you've got \$1M, Mr. Client, in the IRA. Your RMD is about \$36,000 a year. We're putting 0.5M in this immediate annuity and let's say, hypothetically, the insurance company gives you a \$35,000 payout guaranteed for life because they are taking your interest and principle, so they're spending it down. Then, the advisor says, well why don't you take the other \$0.5M and you can put it over here in a separate IRA, you can put it in bonds, CDs, or mutual funds, whatever you want. And get \$1,000 out of here. So if your minimum distribution is \$36,000 and you get \$35,000 from here, you can take an extra \$1,000 from the other side. Except, as you see, it doesn't work that way. See, the IRS puts a brick wall in the middle between an annuitized annuity and the rest of your IRAs. So in this particular case, your RMD on this \$1M wouldn't be \$36,000 a year, or 3.6%. It would literally be \$53,000 a year. It would be \$35,000 here, and \$18,000 there. It would be \$53,000 a year. Yes, it is all taxable.

I've seen people make that mistake before and annuitize an annuity before, thinking that it wouldn't affect their RMDs adversely or thinking that now they can take a lion's share of the RMDs from this annuity. In reality, it doesn't work that way. The reality is that it will actually effectively increase what the government forces you to take, which means it will increase your taxes. So if you have an annuity of any kind, you want to be very careful on how you take income from it, now and after age 72, because it very well could affect your RMDs.

And so again, there's a brick wall between immediate annuities and between other IRAs and 401(k)s, so be careful. If you do have annuities, make sure that you're taking whatever income in the right way, not in the way that it's going to cause your RMDs to go up. Another brick wall question: how do RMDs work with 401(k)s that I've got rolling over to IRAs? Everyone knows you could rollover a 401(k) over to an IRA when you retire, right? If I roll over the 401(k) to an IRA, there are no taxes – it's a tax-free rollover. Well, the interesting thing is, you can co-mingle your RMDs within the IRA. So you've got three different IRAs. You could decide to take the entire RMD from one. So there is a graphic there, let's say you've got an IRA here, you have IRA number one, IRA number two, and IRA number three. You can

decide to take the RMD from all three IRAs; or you can take from one of them if you want. You can do it pro rata from three, or you can pool it and take it out of one.

So for example, if all three IRAs added up to \$1M and your RMD was \$36,000, you can take the \$36,000 from one, two, or three, whatever you want. Why might you do this? Well, you might decide that you don't want to take the RMDs from the lowest yielding account; it's not making enough money. Or you may decide that with the stock market at an all-time high, you've got stocks in this account and you'd rather take the RMD from that account. It's your choice. The same is true with retirement accounts. There's something we call qualified plans.

Qualified plans are just a fancy word for 401(k)s, 403(b)s, and deferred comp plans. If you retired from a company perhaps, you had a 401(k). If you're a retired teacher, perhaps you have a 403(b). And if you're retired from the town, perhaps you have a 457 deferred comp plan. When you retire, you can co-mingle. Let's say now this is your IRA, and these are your qualified plans over here. Now with a qualified plan, you have the same thing; they have three of them: one, two and three. Again, you can take the minimum distributions for the total of all this qualified money from any one of the accounts. You can do it pro rata or you can co-mingle it. What you cannot do, however, is go over this brick wall. The minimum distributions attributable to your IRA have to be taken from your IRAs, and those attributable to your qualified retirement plan have to be taken from a retirement plan. So just be careful of that because I've seen people make that mistake where they're taking the whole thing from their IRA, but they've got one 401(k) they have to rollover that they forgot about. And that's one of the reasons why most people, when they do retire, roll their 401(k)s over to IRAs. Number one, because they are simpler. Their RMDs are simpler, and now they can co-mingle them any way they want. And number two, because it opens up the investment choice world. Once you go from a 401(k) to an IRA, it opens up your options. So again, that second brick fence is right here between the 401(k) side -- the IRA side and the 401(k) side or qualified money side.

So again, just remember the fence here between annuities and the other IRA assets, separate ones. And then remember the fence between qualified plans over here like the 401(k)s, 403(b)s, deferred comp 457 plans, and IRAs.

3. How much will RMDs increase my taxes?

Alright, how does the taxation work on my RMDs? Well, unfortunately, your RMD is not getting capital gains; they are treated as 100% ordinary income. So you have to pay taxes on them. The only exception is if you had any non-deductible or after tax contributions, then it is prorated. So, for example, if you took advantage of some non-deductible IRAs, and let's say you have \$100,000 in an IRA, \$20,000 is your

after tax money and \$80,000 is all your deferred interest. And then they simply take a pro rata formula, so in that example, for every dollar that you've got, one dollar would be tax-free. So that's part of how to set the tax. Now, how much tax you owe will depend upon your tax bracket. Here we have the tax brackets and we've done it for single taxpayers as well as head of household. Taxable incomes, after all your deductions and exemptions. So if you itemize or take standard deductions, this is after the deductions and exemptions. Let's just take a single tax payer – the first \$10,275 of income, after all your deductions and exemptions, is taxed at 10%. This next piece of income is taxed at 15%.

This next piece is taxed at 25%, and so on and so on. Now, this concept is called the marginal tax bracket. Sometimes you might go to your tax preparer and they'll say you paid 17.6% tax this year. It's a little confusing – you have to realize there is no 17.6% tax bracket. The brackets are 10, 12, 22, 24, 32, 35, and 37. What they did was take a blended average of what you paid, but for purposes of determining how much tax you paid on your RMDs or any additional income for that matter, you will look at concept called your marginal tax bracket, which is the additional tax that you have to pay if you add income from the top of the pile. So let's say, for example, we have a single tax payer here whose income was \$80,000 – after all the deductions, they end up with \$80,000. Their marginal tax bracket is what? It's 25. So taxable income equals \$80,000. But now their RMD is about \$15,000. So what's that going to do to their tax bracket? So in this case, he has a bracket of \$7,850 at 22%, and then the rest is going to be taxed at 24%. This is marginal bracket 25, but it's close enough to the next marginal bracket that it's going to have an effect. Are you with me here? So be careful. When your tax preparer puts on that front page that the average tax paid is 17.6%, that is not your marginal rate.

Now, this isn't that complicated if you understand the basics about taxes. Where it starts to get a little bit more complicated is when you factor in taxation on Social Security. Remember when George Bush Senior was running for president? Anybody remember that one of his campaign slogans was “Read my lips, no new taxes.” Remember that? Well, the margin bracket had gone up from 28 to 30, but what also happened with “Read my lips, no new taxes,” was that we started having to pay taxes on Social Security benefits. So if you're over a certain threshold, you have to claim part of the Social Security income as additional income on your taxes. Then, under the Clinton administration, they took that up another notch, where there are even more taxes on Social Security. So the way it works is this. They have a formula called -- and this is where it gets complicated. They have a formula called provisional income, which is where you take all your income sources, add them to your tax-free municipal bond interest, and add in one-half of your Social Security benefit. If that provisional income, in total, exceeds \$25,000 for single people or \$32,000 for married couples, then you start to pay taxes on your Social Security, which means now you have to start to claim part of that supposed tax-free Social Security benefit on your income taxes, up to 50%. So half of your Social Security benefits have to be claimed as taxable income if you are over these thresholds. Now, that was the Bush administration. The Clinton administration then came down here and said okay, well now we are going to kick it up another notch.

If you're over \$44,000 when you take all your income, your tax, municipal bonds, and half your social security, now you might have to claim up to 85% of your Social Security as taxable income. Alright, so that starts to make it muddier because right now, you may pay no taxes on Social Security or you may pay taxes on just a little bit.

And the RMDs push this provisional income up here, and then it'll cause more of your Social Security to be taxed. So that's something that has to be equated, which is why we have software for it. So you come in and see us, we'll put it in the computer, and we'll help you determine how much of an effect this will actually have. This way you can prepare mentally with that financial report.

Alright, so going back from here. What tax bracket do you think Bill Gates is in? Bill Gates is probably about here, that's a marginal bracket. I'm going to guess that there are some of you whose marginal bracket could be as high as or much higher than Bill Gates'. Here's why I say that. Think about this right here – this person is in the 25% bracket. Now that means if I pay 25% of every dollar that I'm earning extra, this causes \$0.85 of my Social Security to be taxed. I multiply it by 1.85, and what do I get? I get about 45%, which means there probably is somebody in this room in a reasonably low bracket, around \$45,000/\$50,000, somewhere in there, but every extra dollar they earn is getting taxed 45%. Why? Their bracket is only 25, but because every dollar they earn is causing \$0.85 of their Social Security to be taxed, it's effectively a 45% margin for tax. Now is that fair that someone who is retired who makes \$50,000 a year should be in a higher marginal bracket than Bill Gates? Probably not, but unfortunately, that's the way the tax bracket works. Alright, so we need to pay attention to Social Security.

4. Is my asset allocation appropriate for RMDs?

Is your asset allocation proper for your required minimum distribution? What do I mean? Well, generally speaking, do you take more risk or less risk in your portfolio? When you start to have to start to collect income from your portfolio, are you taking more risk or less risk? As a general rule, interest or dividends from your portfolio should satisfy your RMDs. In other words, you shouldn't have to take principle. So if your RMDs started about 3.6%/3.7%, it means, ideally, the interest inside your portfolio should cover that. Otherwise, you have to sell or liquidate some investment every year to take your RMDs. And you start to cannibalize your retirement fund. Anyone here care to take a stab at defining dollar cost averaging?

The idea of dollar cost averaging is if you're putting money into a fund, you get your average cost down. Why? Because you put the same dollar amount down every month. So once the market is down or the price of the share is down, you're buying more shares; once the market is up, you're buying fewer shares. So for example, if I put \$100 into a fund and month one price per share was \$10, how many shares have I bought now? I bought 10. Month number two, I put in \$100, but now the funds

miraculously dropped in half. It just so happened to drop by 50% in month two, hypothetically. Now it's \$5 a share.

How many shares have I bought the second time? If I were to stop after two months, what's my average cost per share? The reality is, it's \$6.67. Why? Because first you bought twice as many shares at \$5, and then half the shares at \$10. So we've taken the average cost and pushed it down. That's why dollar cost averaging is tallied by the financial rule as a good strategy. Now, how do you make money in the stock market? What's the basic principal? Real basic. Buy low, sell high.

Dollar cost averaging helps you buy low, because it takes the average cost and it pushes it down, correct? So what if you're pulling money out of a fund every month? Now the reverse is true, is it not? If you're pulling money out of a fund every month or every year, for example because you have to take minimum distribution, then isn't it true that you're going to sell twice as many shares in the market when the fund is down and sell fewer shares when the fund is up? The math is going to be the same, isn't it? But now, what has it done? If I do this thing I call reverse dollar cost averaging, taking money out of the fund every month, systematically, now are my average sales prices getting higher or getting lower? They're getting lower; they're taken from \$7.50 down to \$6.67. Now, do I want to sell low or go in and sell high? Sell high.

You see, dollar cost averaging is what I call a zero sum game. If it is good in one direction – putting money into a fund – then by definition, it must be a bad thing if you pull money out of it. It's the concept of toothpaste; if you squeeze it one way, it doesn't go back in. Same is true here. So dollar cost averaging is a good strategy; reverse dollar cost averaging is very bad. I would go on the record saying it's one of the most cancerous financial strategies you could embark on. Just taking systematic withdrawals from a fund or risky investment to satisfy your minimum distributions. The effect is, it cannibalizes your principal, and then for years when the market's down, you've got to take twice as many shares to satisfy the distribution. Does that make sense? So what happens is, in times like now, the market now is back to where it was in 2007, slightly higher. So if you didn't touch your money, you would be back up, but if you took RMDs throughout that time, even though the market's back, would you be back? No. You're cannibalizing the fund. That's why the general rule is that you need to satisfy your RMDs in interest and dividends and not take principal – that's very important. Again, when you set out to sell more shares down at the bottom, it cannibalizes that fund. Dollar cost averaging is a good strategy. Reverse dollar cost averaging is a very bad strategy. Make sense? Now, that's unless it's a market like in the 90s, right, the 80s and 90s – the best stock market we ever saw. A great bull market like the 80s and 90s overcomes a lot of bad financial practice. So you could have done reverse dollar cost averaging in the 80s and 90s and it wouldn't hurt you because the market was going straight up.

So, then does it make a difference; does the amount of risk we take in our 401(k)s and our IRAs when we get close to minimum distribution age, should the amount of risk be affected by what kind of market cycle we're in? Yes or no?

If we're in a bull market like the 80s and 90s, who cares? You can reverse dollar cost average and you can get away with it, because we're pretty much going straight up. If you're in the market like the one we had for the last 13 years, it's a little trickier, is it not? So the question now becomes, should I stay in the stock market at all once my RMDs are taken? Well, I can't answer that in a group setting. That depends a lot about your personal situation; should you stay in the stock market or mutual fund when your RMDs kick in? If you're going to, it probably makes sense to make sure you're in things that pay a big enough dividends to satisfy your RMD, so you probably would have a 4% dividend or more in order to fund it, but it all depends upon what kind of market cycle you are in. So I want to take a look back here over the last 100 plus years. And I want to look at the cycle here that is very predictable and repeatable throughout history.

Who here has read the book, "Stop the Financial Insanity"? This is a book to get people to understand how predictable and repeatable these cycles are throughout history. It's information that you don't read about very much when you read financial publications, watch the financial media, or talk to most financial advisors. Most financial advisors will say something like, "Well, the market is random; you can't predict it." Most financial advisors will say something like, "Well, Mr. Client, I had no idea this drop in the market was coming. You know, after all, we are kind of in the same boat together." Well, I can tell you, I personally believe that those kinds of things are silly things to say. How do I say that? Because I have clients I aggressively pulled out of the stock market in the late 1990s, knowing that the market was about to take a major drop. And we have clients we aggressively pulled out of the market again in 2005, 2006, and 2007, knowing that the market was going to take a second drop. And there are certain things when looking at historical stock market cycles that are extremely predictable and repeatable. If you take a look at this graph, this gives you an example. At the turn of the century, we had a period of time from about 1899, I mean literally 1899 to 1921, where the market had zero growth. Literally 22 years where there were lots of ups and downs, lots of good years and bad years, but the good years and bad years all washed each other out, resulting in zero growth. Then we have a period of time in the late 20s – all of the 20s – where the market did extremely well. Right, the Roaring 20s, we all remember that from history books. In fact, the 20s were the best stock market we've ever had until the 1990s. Then we had a period of time from 1929 to 1954 where the market had lots of volatility, accompanied by zero growth.

Good news and bad news: they all washed each other out. We had a bull market from the 50s, early 60s, and we had another bear market from 1966 to '82. This was the shortest bear market we've had in history, only 16 years, from '66 to '82, where again we had a lot of volatility – good years and bad

years, but the good years and bad years washed each other out. Then 1982 through 2000, we had the best bull market in U.S. history. And quite frankly, it's my research of the cycles back in the 1990s that allowed me to pull most of our clients' money out of the markets in the late 90s because we could see the drop coming. And it's what led me to do it again in 2006, and frankly the same in-depth study of historical market trends that makes me very, very concerned about the new record heights that the stock market is making. Historically, if you had a 22 year bear market here, 25 years here, 16 years here, tell me, how long, roughly, according to history, do you have a bear market? About 20 years. And you know if we went back to the 1800s, believe it or not, these cycles would look quite similar. So now, how many years have we been in this bear market so far? 12 or 13. So is it possible that this is the first time in nearly 200 years of history that the stock market recovers after only 13 years? Is it possible? Anything is possible, right? After all, the Red Sox won the World Series, right? But what you have to ask yourself is, according to history, is it probable? History clearly indicates that we probably have another decade to go, of a very volatile, flat stock market. Which causes me even more concern right now, because where are we now relative to the trading range over the last 13 years? Are we on the low end or the high end? We're in the top end.

So if you look at what the market has done, (draw market history graph) – this is what the market has done since the turn of the century. This is 2000, 2003, 2007, 2009, and 2013. This peak in 2007, the stock market, based upon the S&P 500, got about two points higher here than it was here. And now, you've got about 3% higher than it was over here. It is certainly closer to the peak than the trough, which is my concern. Also, one thing that history shows that I'll share with you, is that historically with every one of these secular bear markets, we have always had at least 3 major drops. We've never had a secular bear market with only 2 major drops. And although it doesn't have to happen, it is very common that these drops get bigger. We call these down waves and it's very common they get bigger. There are lots of theories behind that, called wave theories, which I won't attempt to explain now – it's way beyond our session today. But if this is something that you want to learn more about because you have money in the market or mutual funds, come on in for the complimentary meeting and we'll give you more data so you can decide for yourself whether or not this cycle is as predictable and repeatable as I believe it to be.

So I urge you with this today to make a common sense decision on how to allocate your IRA. In other words, just don't take the general rule and say okay, (advisor's name) says I have to satisfy my RMDs through interest and dividends... check, I'm okay, I can move on. That's a good basic rule. But I urge you to use common sense and go to the next step, and take a look at where we are in the cycle right now and whether there's more upside than downside. Make sense? Any questions on how asset allocation should be appropriate? And nothing specific, just general questions. I can't answer specifics here because I need to know more about you. That's why we have the complimentary meeting, because I don't know your situation. I can't answer something generically for one person. So again, if

you have specific questions about your asset allocation, and if it is appropriate, come see me for the free meeting. Do you have generic questions about how the asset allocation affects RMDs?

5. What can I do with my RMDs?

What if I don't need my RMD money? You still have to take it, so what are your choices? You can take it, and you can spend it. A lot of my clients take lots of vacations and travel or take kids and grandchildren on a trip. Why not? You can reinvest elsewhere in non-IRA assets. You can gift it to children or grandchildren or a charity. Some people say, "I don't want the kids to get the money when I die. I want them to enjoy it now." So if you don't need it, you can gift that money, RMD money is great money to gift. Others might be concerned that the kids might spend it and if they're in good health they might say, I'll buy life insurance with it. So now when they are gone, they take these small increments of RMDs and use it as a huge tax-free life insurance benefit for their heirs, so there are several choices as to what you can do with your RMDs.

6. The importance of paying attention to Beneficiaries

The last topic here is the importance of beneficiaries. The general rule is, a spouse can only roll over an IRA. One spouse can only roll it over to another. If one spouse passes away, the other spouse gets it, and it is no problem at all. In fact, it's conceivable that when you die, and your spouse gets the money and he or she remarries, they could die and pass it to the next spouse too, and if that person remarries, you could potentially roll over the IRA and never pay taxes, theoretically. In the real world, that's not what you want – you want it to go to your family. So what happens when both spouses eventually go to non-spousal beneficiaries? Well in terms of the general rules, your IRAs have to be distributed within five years. Your non-spousal beneficiaries have to take income for 5 years.

However, if the beneficiaries were set properly – and we can check this if you want to come in and see us for the free hour, we can help you with that – we can, what's called 'stretch out the IRA', or keep it intact, by having beneficiaries take little required minimum distributions over the course of their life expectancy. So now you're not being taxed on the whole IRA at once, they're paying tax on the bits and pieces. But your beneficiaries have to be set up properly to do this. One thing you need to be aware of here is per capita versus per stirpes – what's the difference? Per capita is kind of standard, where you have three children, and one dies, so now your assets get split between the other two. And if two of them die, then of course all of your assets go to the third. That's per capita. But what if you don't want that? What if you say, well I've got three children, but if one of my children dies before me (God forbid), I want that child's portion when I die to go to his or her children – to go down the linear route. My two living children can get their 1/3 and the other 1/3 can be split based upon my grandchildren. If you

wanted that, then that's what's called *per stirpes*. So it's important to determine whether to your designations are *per capita* or *per stirpes*, because it does make a difference. I just had this discussion today with somebody who unfortunately outlived one of their children. And she didn't know how to fix her designation because my suspicion is it may not be set up the way she wants it. That is something we can look at too.

Now there's a separate table for the inherited IRA. And notice here that the minimum distributions for beneficiaries are calculated the same. Take the account value on December 31st of the previous year and divide it by life expectancy. Notice now that the table doesn't start at age 72; notice that it starts at age zero because if a one year old grandchild is the beneficiary, his life expectancy is 81.6. And so on and so forth. And this is a table that is based upon the beneficiary's age. Now remember, before I went through this big thing about recalculating, how the RMDs recalculate every year, or every year you're older, 70, 71, going down by about 9/10 of a percent each 9/10 of a year, not a whole year. The reason I made such a big deal about recalculating is because these don't recalculate. This is a situation where if at age 36, you receive a beneficiary driven IRA, somebody passes on, your life expectancy is 47.5. The next year, you don't divide it by 47.5, you divide it by 46.5. The next year, 45.6, and then 44.6. So literally for this 36 year old, at age 83 and a half, they've depleted that beneficiary driven IRA. So beneficiary driven IRAs don't recalculate; they will deplete at life expectancy. Your own IRAs will not, and that's an important difference, and yes to answer your question, you've got to divide it. So your required minimum distribution calculations for your own IRAs that you contributed to work in one way – beneficiary driven IRAs are totally separate.

So, if you still have questions here, on any of these things, come in and see us; once again, it's an hour at no charge, with no obligations. There are people who have come to see us before for a complimentary one hour meeting from a workshop – some of them became clients, others didn't. But either way, whether you become clients or not, I want to assure you, we don't bite. Our job is to offer you a quality, free community service, and help answer your questions. So at some point down the road, if you feel you have a need for our firm's services, whether it be tax services, investment services, whatever, we can help you. And again, the big topics that people have when they come in to this complimentary meeting are things like: how much will our RMDs be and how much additional tax does that create; how that affects taxes on the Social Security benefits; perhaps the biggest one is, is my asset allocation appropriate for my RMDs? And lastly, are my beneficiaries set up for maximum tax efficiency?

So, if I could get you to take a couple minutes and fill out this response sheet for me, that would be great. Right here. Thank you. If you notice on the bottom, I want to draw your attention to it. If you notice here, we put some times. This is an opportunity to pick your own time in the next two weeks to come and see us. Why two weeks? Because statistics show that once you pass two weeks, you

remember literally less than half of what you've learned. That first box includes the times that I am available. You can pick your time. The two boxes below are the next two weeks, where you could also pick your time. So go ahead and pick your time, if you want to come see us for the complimentary hour. And we look forward to answering your questions in any way possible. Thank you and have a great night everybody!