FrangoFinancial LLC
*Individual planning. Personal solutions.*

www.FrangoFinancial.com
4301 Connecticut Avenue, Suite 450
Washington, DC 20008-2304
cell 202-361-5101 | phone 202-244-4460

Financial focus

*Winter Issue - 2014/2015*

## Prepare for Retirement: Take Steps Today to Benefit Tomorrow

By Charles "Chip" Simon, CFP®
Poughkeepsie, NY

When I was growing up, there was a TV show called *The Life of Riley*. The graphic used to depict the show's main character, played by William Bendix, was a hammock, the symbol that endures as an image of retirement – a life that is easy, carefree, and passive.

Of course, this is totally out of touch with today's retirement realities. Why? We're living longer. At the beginning of the 20th century, the average lifespan was 47 years. As of 2009, it's 78.5 years (76.0 male/80.9 female…sorry guys). That's a 67% increase. This longevity trend, along with the recent economic potholes such as the Great Recession, has generated intense interest in finding ways to not run out of money.

I think this is an issue of "choose to work" versus "have to work." Many of the retirement surveys slice and dice responses from various modalities or groupings of respondents. But I keep thinking about the July 2014 Federal Reserve survey that examines households in the general population. It states that:
a. 52% of households would cover a $400 unexpected expense by having to sell something or borrowing money.
b. 31% have no retirement savings or pension.
c. 25% don't know how they will pay their expenses in retirement.

This dovetails with the National Bureau of Economic Research, which reported in May 2011 that nearly 25% of Americans would not be able to come up with $2,000 in 30 days to cover an emergency, and an additional 19% would have to resort to selling items or using payday loans to raise the cash. The fact is that there is a lot of subsistence living out there.

What about the "haves"? The Center for Retirement Research recently reported that, in 2013, the median combined 401k/IRA balance for working households near retirement was $111,000. This translates into a $500/month annuity for life, which will have declining purchasing power.

Here is a simple approach to help you calculate your retirement needs: First, assume that your current lifestyle will be your retirement lifestyle. Add up your living expenses. Do you spend all of your take-home pay? Then that's close enough. Add on 15% of that for income taxes unless you know better. Note the total. Next, add up your guaranteed sources of income – projected annual Social Security benefits and pensions, mainly. That's your guaranteed cash inflow. Is this more than your estimated cash needs? If so, lucky you. If not, then you need to generate cash from personal savings to fund that "gap."
How much savings will you need? Multiply your "gap" by 15 to calculate your required personal savings. 15 is the "income replacement" number. It's a multiple that calculates the amount of required savings that will earn enough on average to cover your gap, assuming an interest rate of 6.67% (1/15 = 6.67%). This is a starting point for estimating your retirement portfolio goal.

Note that this is merely a starting point. If you don't believe you will get a 6.67% return, what are you going to do about it? Save more? You could multiply the gap by 20 instead. If you don't plan to leave an estate (that is, you plan to "spend down"), multiply the gap by a lesser number. Ultimately, you have to figure out what your number will be. But don't sit on your laurels expecting to have the life of Riley. Managing financial self-reliance is critical today. A simple estimate of your future financial needs can direct your thoughts and, more importantly, your behavior to fulfill realistic goals. Consider taking the first step today.

## In This Issue



## Beware of IRS Scam Calls

If the IRS wants to contact you, they will mail a letter. If you receive a phone call from the IRS stating you need to send money immediately, you are going to be arrested, or they are filing a lawsuit against you, this is a scam. Do not provide any personal or financial information, and you should also:

- Notify your financial planner or advisor.
- Google the phone number; many times posts will reveal if this phone number was being used in an IRS scam.
- Call the number yourself and explain that you have read IRS and press warnings of fraudulent activity and ask for the name, badge number, and division of the caller.
- Register your phone number with www.nomorobo.com; all known "robo" callers, telemarketers, and scam sources will be blocked.

# Do Well While Doing Good

By Mike Ryan
Hendersonville, TN

The charitably minded well-to-do have long enjoyed the tax benefits of charitable trusts. They support their favorite charitable causes while enjoying generous tax benefits. Charitable trusts are expensive to set up and are not cost-effective for middle-income givers. With the advent of donor-advised funds, more of us ordinary folk can reap the same tax benefits as the wealthy.

Here is how donor-advised funds (DAFs) work. A number of mutual fund companies (including Vanguard and Fidelity) now offer DAFs for their clients. Once you open a gifting account with their DAF, the fund companies will gladly accept your donated money, invest it as you advise, and keep track of your individual giving account within their large pot of money from other donors. When the DAF fund (a tax-qualified 501(c)(3) charity) receives your money, you take a charitable deduction for the entire amount in that year. However, the money stays in your giving account and the investment earnings are also credited to your account. You can then advise the DAF fund company to make gifts from your DAF account in the future. Note: Gifts made to charities from your DAF account do not qualify for a tax deduction (because you already took the deduction when you gifted to your DAF).


Based on your recommendations, the DAF will send money in your giving account to your designated charities that meet IRS requirements. You may parcel the donated money out to various charities over a number of years if you like. Almost all well-known charities qualify, and most – if not all – churches meet those requirements.

DAFs allow givers a number of tax-planning tactics. If you gift shares of a mutual fund with a large capital gain to your DAF, you take a charitable deduction for the entire amount gifted to your DAF in that tax year. Were you to first sell those shares in order to make the contribution, you would pay the capital gains tax on the sale, leaving less to gift. Then you can gift those funds from your DAF giving account to multiple charities over multiple years. If you gift appreciated assets to your DAF prior to retirement, you take the charitable deduction while in a high tax bracket and then parcel out non-deductible gifts from your DAF post-retirement when you are in a lower tax bracket.

If you take the standard deduction, bunching giving to your DAF in one tax year can also help your annual charitable contributions surpass the standard deduction threshold. Consider a retired couple, both 65. Their standard deduction for 2014 will be $14,800. Unless they can surpass that threshold with itemized deductions, they will not realize any tax benefit from their charitable gifts.

However, if they prefund their regular annual giving with a larger contribution to their DAF in one year, that gift might put them over the threshold to itemize deductions. Then, they could use their DAF giving account to make charitable donations in subsequent years when they take the standard deduction.

DAF giving accounts can also prove useful to offset income from a Roth conversion. If you convert $10,000 of traditional IRA funds to a Roth, it adds $10,000 of taxable income in that year. However, if you donate $10,000 to your DAF in the same year as the Roth conversion, the $10,000 itemized deduction for a charitable gift would offset the added income and tax. In addition, you have increased the size of your DAF giving account to fund future charitable gifts.

DAFs have thus far remained off the radar for most in spite of the fact that they can be such a tax-effective way to give. If you are going to give the money anyway, you might as well give it in a way that saves on taxes! Ask your ACP advisor whether a donor-advised fund would make sense for you.

# What I Tell Clients Who Want to Buy Gold

By Bridget Sullivan Mermel
Chicago, IL

Sometimes people want gold because of greed, sometimes because of fear. Here's what you should know before you buy.

"OK," the client said at the end of our meeting, after I had recommended my investment strategy. "I've just got one more question."

"Go ahead," I said.

"What about gold?"

"Why gold?" I asked. I've found that the reasons people give me really vary. When they say they want to buy gold, there's some deeper issue we need to uncover. "What is it about gold that appeals to you?"

"It's low right now. You believe in buy low, sell high, right? I want to earn more than I can from bonds. There's always a market for gold, no matter what happens."


Hmmm. The client is expressing both greed and fear. It's usually one or the other.

So I tried to explain: You don't invest in gold; you speculate on gold. Gold grows in value when someone else will speculate more than you did when you bought it. Perhaps it rises and falls with inflation. An exhaustive 2013 article in *Financial Analysts Journal* concluded that's not really true. The authors found that the price of gold rises when it rises. The price of gold falls when it falls.

There's some evidence that gold has kept its value in relation to a loaf of bread. The problem is that this comparison goes back to the reign of the Babylonian king Nebuchadnezzar in 562 B.C. For most investors, that time frame is way too long.

Some people want gold in case all hell breaks loose. It makes them feel safer than boring bonds. I can understand where they're coming from. Bonds are almost purely conceptual because most people don't ever even get a piece of paper saying they own them. These people want gold so they can make a run for it if necessary. Like I said, I understand. I like feeling safe, too.

If you're in this camp, you could use 1%-2% of your portfolio to buy some gold. Take physical custody of it. Put it in your safe at home.

Remember the practicalities. Small coins will probably work best; you don't want to be stuck trying to get change for $1,000 gold bars when the banks have closed. Gold weighs a lot, so just buy enough to get you over the border. You don't want your stash to slow you down when you're sneaking away in the night.

Still not feeling secure? To take the next step down this road, add the following to your safe: guns, ammo, water, and a copy of *Mad Max* or another favorite movie of this genre. *The Book of Eli* was OK, and *2012* was even better.

However, none of these movies features a post-apocalyptic gold standard. According to them, if and when all hell breaks loose, you'll want guns, ammo, gasoline, and perhaps a jet.

*Originally published on Money.com*

## A Comparison of Retirement Strategies and Financial Planner Value

Although most Americans believe they are not saving enough for retirement, few are able to increase retirement saving on their own due to a lack of knowledge and inertia. Households may not possess the analytical tools needed to calculate how much they must save each month to meet retirement spending goals. A recent study from the *Journal of Financial Planning* looked at four investors: those working on their own with no plan, those working on their own following a strategy, those who worked with an investment advisor, and those who worked with a comprehensive financial advisor. Results show that estimating retirement needs and working with a planner increase retirement savings significantly more than the other strategies. Those who had calculated retirement needs and used a financial planner (which likely captures those who used a comprehensive planner who follows a more thorough planning process that includes retirement needs assessment) generated more than 50 percent greater savings than those who estimated retirement needs on their own without the help of a planner. Visit www.onefpa.org for more information on this study.

By Troy Von Haefen
Nashville, TN

# Don't Succumb to Fear and Greed

There are two emotions that can derail an investment plan faster than a Nolan Ryan fastball: fear and greed. Fear and greed tend to push investors in the wrong direction at the wrong time. Let's take a look at these two emotions and how they can impact your portfolio.

## Fear

Fear is a great motivator, and it's easy to find common examples today as it relates to investing. Simply turn on your TV and wait for the next commercial pushing gold and silver as a safe haven against the next great downturn.

Often a retired actor states that he will only trust his hard-earned assets to gold. Well, the last two years have not been friendly for this investment strategy. Gold was near $1,800 in the fall of 2012; today the price sits a little above $1,200 per ounce. That's a decline of over 30%! Doesn't sound like much of a safe haven to me.

An investment strategy based on fear is flawed.

## Greed

The market has been very strong for the past five years or so. Matter of fact, in the same period (two years) that gold prices fell greater than 30%, the S&P 500 rose over 45%. It's tempting to slide toward the greedy side of the aisle and dump all of your assets into the S&P 500. Wouldn't it be great to see your money grow at such incredible rate of return?

The problem is, just like gold, there is no guarantee. You've heard that past performance is no guarantee of future performance, and it's true! Overloading in equities can be dangerous as well.

## Balance

So what's the answer? Simply put, it's balance. When we let fear and/or greed drive our investment decisions, we tend to take a divergent path to balance. Balance requires discipline.

Think back to late 2008 and early 2009 when the market was tanking. Any decision based on fear would have been painful. Sticking to the plan and riding out the storm proved (once again) to be the prudent strategy.

We've recently seen market highs. We've seen solid performance from the market the past five years, so it may be tempting to overweight equities based on past performance. Again, it's important to remain balanced and not fall prey to fear and greed.

Implementing a balanced portfolio is not always an easy task to handle without professional assistance. Having someone to hold you accountable and pull you away from the temptation of fear and greed is a valuable asset!

If you need help creating a balanced portfolio or you feel you are on the edge of making an investment decision based on fear or greed, the Alliance of Comprehensive Planners (ACP) is a great place to look for assistance.

# It's Time to Gear Up for Tax Season

By Troy Von Haefen
Nashville, TN

As we start the new year, we begin with aspirations of success and happiness for the year. But, as we move a couple weeks into January, we realize we are knocking on the door to a very busy time of the year: tax time!

Taxes seem to be an issue that can keep us all up at night, especially if there is uncertainty. And uncertainty comes from two places: lack of solid substantiation or lack of understanding.

Remember, the IRS always has the right to question a deduction, stance, or position, but the IRS will not decline a deduction that is within the rights and laws of the taxpayer, especially when appropriate substantiation is present. When we have the appropriate paperwork to back up a position, there is no need to lose any sleep or worry. Sure, the IRS can ask, but the proof is in the pudding…well, in the receipt. So, no need to worry.

The best medicine for a good night's sleep is to prepare prudently: Keep good records, stay organized, and stay efficient.

What can we do to make our tax preparation experience run smoothly?

While 2014 is in the rear-view mirror, there are things we can do to prepare for the next tax season. Keep your tax documents organized. When you receive your W-2, 1099, 1098, etc., don't lose them or spill coffee on them. Set them aside in a folder clearly marked 2014 tax documents. You can also be proactive and get some documents early, such as 1098 (mortgage interest statements) and 1099 composite forms (interest, dividend, and capital gain documents from brokerage accounts). These forms are often available online before you receive them in the mail.

For business owners and rental property owners, it's important to have the right documentation available. This is old hat for many of you, but for those with new businesses it's important to create a document that clearly outlines income and expenses. Software packages such as QuickBooks do a great job of this by creating the appropriate reports; usually a Tax Detail Report or a Profit and Loss Detail Report for the tax year is perfect.

It's just January, so why all the fuss? April 15 is our deadline! Sure, we can file for an extension, and sometimes due to circumstances beyond our control we may have to, but we must remember that taxes are an integral part of personal financial planning. If we push 2014 too far into 2015, we lose the ability to be proactive and plan efficiently for our future. So the time to start is now!

If you want to help yourself, get your taxes done on time or early. You will be amazed at the feeling of accomplishment you will realize. Plus, you will have a better opportunity to plan for a prosperous 2015!