# Suddenly Single

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# Introduction: A Bold Promise

Dear reader,

I understand where you are—you're suddenly single.

Whether you're facing the loss of a spouse due to death or divorce, you've found yourself in one of the most challenging and traumatic times in your life. On top of that, you now have a newfound independence—whether you like it or not—a life that comes with a daunting list of financial decisions, especially if you have substantial assets.

This book was written as a resource to help you move forward financially after a major life event—so you can achieve your *best life* after this difficult transition.

If you use this book as a guide, it will empower you to take charge of your finances *now*, even if you feel aggrieved, overwhelmed, in mourning, or you are questioning whether to delay critical decisions.

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This book is authored by Shari Burnum, an independent wealth manger with nearly 30 years of experience working with individuals, families and investors with complex financial needs. Burnum draws the insights from her deep experience in wealth management, as well as extensive research and good old fashioned street smarts. As founder and president of Investor's Resource in Madison, Ala., and branch manager and financial advisor with Raymond James Financial Services, Shari holds the CERTIFIED FINANCIAL PLANNER™ certification and ranks in the top echelon of Raymond James' advisors nationally.* Shari has extensive knowledge in tax, estate and wealth management—particularly as they relate to individuals who find themselves "suddenly single."

As the son of a widow who unexpectedly lost her husband, my father, at age 65, just before retirement, this is the book ***I wish*** my mother had to guide her through her difficult time of transition, a time riddled with inner conflict, indecision and an utter loss of confidence in her decision-making.

With the help of trusted family, friends and advisors, she eventually stumbled upon the decisions Shari outlines in this book. But it took time, and considerably more anxiety and stress than necessary—not just for my mother, but for our entire family.

But you don't have to be lucky, anxious or stressed (at least not as much as we were).

Read this book. Follow its guidance. It can provide a shortcut to your *best life* moving forward.

Sincerely,

*Gary Grimes*
entrepreneur, finance writer, loving son

*Membership in the 2016 Chairman's Council

Taking
Action

# Taking Action

## Why act now?

Hi, I'm Shari.

I've worked with people in transition for my entire career, and I take pride in the fact that I've guided hundreds of people to their next steps with care, compassion and empathy. That's why I wrote this book, because through my years of experience I find time and again that, when there is a sudden life change like the death of a spouse or divorce, the old saying always rings true:

*Taking the first step is the hardest part.*

When people who are divorced or widowed walk in my door, their finances are often scattered. Their focus is often scattered, too. Considering their situation, it's understandable. They come in embarrassed, apologetic, even ashamed—but they shouldn't be! Far from it. Instead, they should be proud they have the confidence and strength to take the most important first step: reaching out for help.

Generally, they:

- Are overstressed and in varying stages of depression or grief.
- Want quick and easy access to money so they can keep bills paid and avoid adding financial stress to an already stressful situation.
- Don't trust themselves to make decisions, so they feel paralyzed to take action.
- Have heard horror stories about "not getting their fair share" in divorce or making poor or irrevocable financial decisions while settling an estate.
- Don't know how much money it takes to cover their basic and discretionary needs
- Have a hard time setting long-term goals because their short-term world has turned upside down.
- Don't know how to allocate assets to provide both short- and long-term cash flow.
- Are concerned about getting bad or confusing advice from their spouse's financial professionals who they don't know well and are not sure they can trust.
- Are stuck in a cycle of uncertainty and inaction, unable to make vital decisions about how to achieve their best life moving forward.

Worse still, just as they get their footing and take a few initial steps, their loved ones—with the best intentions—tell them things like, "there's no rush," "your money's not going anywhere," "it will all work out," "just wait a year, and you'll be able to make better decisions then."

Yet this is where sound professional advice and timely decision-making can be crucial to your future. While some individuals may indeed be in a position to wait a year to make important financial decisions after a divorce or death of a spouse, for most people, it is *vital* to take action as soon as you are mentally and physically able. As a result, you will be able to proactively take ownership of your finances, help preserve your assets and protect your lifestyle moving forward *before* the inevitable obstacles arise.

## The Most Common Mistakes

Quite frankly, most people after a traumatic life event are in no condition to make sound decisions—of any kind, much less financial. Because you've just experienced a life-altering event, your ability to make decisions is physically altered. A national study of 8,652 men and women in their 50s and early 60s, published in *The Journal of Health and Social Behavior* in 2009, found that when married people become single again through divorce or the death of a spouse, their physical health often suffers.

In times of transition, people physically and mentally overexert, causing anxiety and stress. As a result, our brains change in activity level and even shape—sometimes shrinking like that of an Alzheimer's patient.[1]

On top of that, depression often accompanies the anxiety and stress common in transitional periods of life. In states of depression, our brains can go into overdrive, resulting in poor sleep patterns, which in turn exacerbates problems and leads to a total loss of focus. Studies also show that during stages of depression our brains generate less serotonin, a key driver of motivation. While this may be the body's natural response to anxiety, stress and depression, it works against people who are in important transitional periods of their lives, people who need to take action.

> “One of the most tragic things I know about human nature is that all of us tend to put off living. We are all dreaming of some magical rose garden over the horizon—instead of enjoying the roses blooming outside our windows today.
>
> —Dale Carnegie

One of the worst parts about not having a plan is the tendency is to make rash financial decisions randomly and without reason when bursts of energy and motivation align. For example, at a loss for immediately cash flow, widows often begin withdrawing from their late husband's Social Security or pension accounts at reduced rates too early when perhaps they should tap another income source and preserve the better rates for the future. Or they write checks on a bank account and deplete valuable assets that could have earned interest and produced income for a lifetime. Divorcees or widowers may believe they have no choice but to stay in their current homes with all their memories—good or bad—

(1) Dr. Husseini Manji, former Chief of the Laboratory of Molecular Pathology at the National Institutes of Mental Health

and as a result, they're left with an asset that's not only *not* producing returns; its actively sucking their financial accounts dry and hurting their chances of *ever* achieving their best life moving forward.

These are just a few of the dangers of the traditional "Don't Make Major Decisions for a Year" advice.

While it's true that decision-making in haste or without clarity can be dangerous; timely decision-making with insight, logic and perspective can lead to some of the best decisions of your life.

Sure, the traditional advice is meant to protect you. But if that which is meant to protect you is actually delaying your action, causing you to miss vital deadlines or opportunities—or worse, setting you up for playing catch-up and barely staying afloat for the rest of your life—don't you think the relative discomfort of facing a few hard decisions sooner rather than later is worth it?

This is where it is important to have a strong support system, including supportive family and friends, as well as trustworthy financial professionals, by your side.

Each plays a different role in helping you achieve your best life. With the help and support of your family and friends, you can hold your head up and make important decisions on your own. With the understanding and guidance of your financial professional, you can face your hardest decisions with the clarity and focus you need to take sound action, and then look forward.

This book will direct you to those high-impact decisions that, if implemented strategically and tactfully, can bring you significant joy … or at the very least, outline which critical choices you need to make *now* to help ensure and protect your *future*.

## Why bother?

For decades, I have worked with all levels of suddenly single individuals, and I have experience with how to make a wide variety of moving financial components work together efficiently and effectively.

Our team has helped numerous individuals in transition open the next chapter of their lives with more confidence—financially and personally. We use a five-step wealth management process developed over 30 years in the industry that addresses investment consulting, advanced planning and relationship management.

That's why I wrote this book: to guide you through the highest-impact areas of your life, right now, and help propel you into the next chapter successfully—before today's anxiety, stress or depression festers and grows into something more pernicious.

This book provides a clear, step-by-step guide for mastering three areas of your financial life with the biggest impact, including plans for income, your home and retirement accounts. Additionally, it offers thought-provoking questions designed to guide and shape your personal goals—all addressed *within* the first year after the death of a spouse or a divorce.

I will also discuss the common misconception that someone should wait for a year before making major decisions. And I will make the case that *if* they want to take big strides toward experiencing their *best life* ahead, they should take timey and decisive action *now*.

A Plan for
Your Income

# A Plan for Your Income

## Solid and Flexible

Job No. 1 is developing a plan to support your lifestyle. Many *Suddenly Singles* are flooded with information at a time when their decision-making capacities are at critical lows. This makes planning a challenge—and it makes partnering with the right people essential for certain decisions that cannot (or best not) be put off. A solid plan helps preserve as many assets as possible for today and the future.

## Homework Before the Plan

I use six steps to develop a financial plan. These steps are valuable if you are doing your own planning or want to have a discussion with a financial advisor. They are also useful for anyone who might need help caring for your assets if something happens to you, so they can act in your best interest.

1. **Write a financial statement (see worksheet below).** So this exercise is valuable, all financial statements must have a list of all assets and liabilities—what you have or owe and how much, both business and personal. This will help you understand what resources are available for planning.

   If you own a business or your spouse owns one, it may have value beyond the assets under its roof. If the business has an ongoing clientele or revenue stream, includes their estimates of value on a financial statement for potential planning purposes, especially a divorce. And don't forget to consider items like deferred compensation plans where money is diverted into a company-held area and isn't available until the future. They're not usually counted on a financial statement, but they can be important for future planning.

2. **Figure the stocks relative to bonds in your overall portfolio.** For example, we'll use a $1 million portfolio. If you have $600,000 in individually owned stocks or similarly managed funds and $400,000 in individually owned municipal, corporate or government bonds, or the like, you have a 60% stock to 40% bond mix. That will help you project a potential rate of return that your current mix will bring.

3. **List your income streams.** Include items such as potential pension income from employers (including ones from years ago), whether fixed or variable annuity payouts will continue, and any government benefits (Social Security, veterans' assistance, disability, etc.) to which you may be entitled. Real estate rents, net of mortgage payments and costs, should be estimated in this section as well.

4. **Set both short- and long-term goals.** Often during major transitions, it's useful to set an income goal for how much money you need coming in each month to cover both your current liabilities and future desires. It's OK to be idealistic about your wants, but be realistic about their costs. Things like a vacation house, new car, inheritance to children, college contributions, charitable giving, relocation, etc.

When setting these goals, list them in terms of "Must Haves," "Like to Haves" and "One Day Wants." Project an annual amount for all Must Have expenses. Then estimate what it takes to add the Like to Haves, things you want sooner rather than later. Don't forget non-recurring expenses that may not show up if you review only a month or two of bank and credit card statements, such as real estate taxes, insurance payments, car registrations, travel, vacation rentals, children's activities, etc. Next add in the One Day Wants, things you can envision in the future like that beach house you've always wanted, annual overseas family vacations, helping with a child's wedding costs, etc.

- **Must Haves**—Examples: rent, food, utilities, kids, hobbies, clothing, entertainment, etc.
- **Like to Haves**—Examples: nails, travel, extra shopping, new car.
- **One Day Wants**—Examples: one-time trip, child's wedding, lake house, inheritance to kids.

5. **Understand risk tolerance and its effect on your plan.** Risk tolerance is a phrase used by the financial community that is often poorly explained. The key is that no investment is without risk, and everyone's definitions of conservative, moderate or aggressive risk tolerance vary. What you may view as an unpalatable risk someone else may see as a "conservative play."

   It's important you have a complete conversation with your financial professional to determine *your* level of risk tolerance. This conversation should include what percentage and dollar value you stand to make on average with a certain mix of investments. It should also include what happens to your investments in a typical good year or a really, really good year—and vice versa. Seeing potential gains and losses in percentage and dollar terms helps you project the level of risk you can afford and are willing to take to accomplish your goals.

   The conversation then should evolve to determine what return that mix might be in today's market conditions. If the projected return is too high or low for your situation or goals, perhaps an adjustment should be made. You can opt for a potentially smoother ride through negative market cycles (more conservative approach) or a bumpier ride (more aggressive approach) for a chance at larger near-term gains.

6. **Don't forget personal goals.** What about learning to live independently in your next chapter? Answering financial questions is important but not to the exclusion of healing your mind, body and spirit. One useful step is placing your personal goals on the same priority level as your financial goals.

   - Who do you want to become?
   - What do you want to do? How do you want to do it?
   - What do you want to see or experience?
   - Who do you want to get closer to?
   - What bad habits do you want or need to correct?

Answering these questions will help you shift your focus not just to surviving but thriving in your new independence.

# PERSONAL FINANCIAL STATEMENT

**Name:**

**Date:**

| **Assets** | **Amount in Dollars** |
|---|---|
| Cash (checking accounts) | $ |
| Cash (savings accounts) | $ |
| Certificates of deposit | $ |
| Securities (stocks, bonds, mutual funds, etc.) | $ |
| Notes & contracts receivable | $ |
| Life insurance (cash surrender value) | $ |
| Personal property (autos, jewelry, etc.) | $ |
| Retirement funds (IRAs, 401ks, etc.) | $ |
| Real estate (market value) | $ |
| Other assets (specify) | $ |
| Other assets (specify) | $ |
| **Total assets** | **$** |

| **Liabilities** | **Amount in Dollars** |
|---|---|
| Current debt (credit cards, accounts, etc.) | -$ |
| Notes payable (describe) | -$ |
| Taxes payable | -$ |
| Real estate mortgages (describe) | -$ |
| Notes & contracts receivable | -$ |
| Other liabilities (specify) | -$ |
| Other liabilities (specify) | -$ |
| **Total liabilities** | **-$** |

**Net worth** **$**

**Notes:**

## A 3-Step Plan

Divide your thinking into two "buckets": Present Income and Future Goals. The objective is to separate assets that produce income from those that can be used for long-term appreciation toward future goals. The assets that produce income today should likely be invested in a conservative or moderate fashion to help protect their principal over time. Those for the future could be invested more aggressively, depending on your time horizon, how you feel about risk in general, and the amount of return it will take to reach the goal. I recommend taking three important steps to determine your plan.

1. **Strive to preserve assets for present income needs.**
    - Determine how much money you need annually to take care of all of your living expenses—Must Haves and Like to Haves. Quicken or QuickBooks are great programs to help you set realistic goals. Or perhaps you have a close friend or relative you trust to help you sort through receipts, bank and credit card statements to calculate your expenses. If you have a CPA, set up a meeting and bring your shoebox of receipts and six months' to a year's worth of bank and credit card statements.
    - Once you have your number, divide it by 4%. This gives you the amount of assets you need to support your current lifestyle —if they produce an approximate 4% return annually.
    - Compare these two numbers with your financial statement. If there are enough assets and income streams to cover your annual expenses, that's a good sign. If not, you need to consider other options. Either way, you may need to consult additional counsel—a debt consolidation expert, banker, financial planner, CPA, divorce or estate attorney, financial advisor, or wealth manager—depending on your specific needs.

This is an extremely simplified plan and is only meant to guide your thinking before you meet with a professional. You may need to account for certain taxes, especially if you plan to draw funds from a pre-

tax IRA, 401(k) or other account. In this case, you may want to multiply your asset bucket by 1.25% to estimate a higher number, accounting for an average income tax rate of 25%.

In the meantime, here's an example. Consult a financial advisor to adapt this to your specific situation. Let's say you have $75,000 in Must Have and Like to Have Expenses annually. Take that $75,000 and divide it by 4%. This gives you a number of almost $1.9 million, which is the amount of assets you need to support your $75,000-a-year lifestyle with no other income. Check your financial statement to see if you have that. If you do, then these assets could be set aside solely to produce income for you to live on. Let's say you have additional income, such as work, Social Security or pension payments for a total of $50,000 annually. This lowers your number to $25,000 annually. So after the 4% calculation, you would only need $625,000 in assets to support your annual lifestyle.

Income-producing assets are ideally invested in a conservative or moderate fashion and typically do not grow significantly over time. The fewer assets you use for annual income, the better, because money leftover can be allocated to higher-growth-potential opportunities, which we hope ultimately produce your One Day Wants.

**2. Allocate assets for future goals.**

If assets from your financial statement are in excess of those needed for Must Haves and Like to Haves, you may have an opportunity to set some aside for One Day Wants. Perhaps this may allow you a greater income today, an inheritance for the children, or that lake house or some other thing you have your eye on for down the road. A solid plan can also help you and your financial professional determine what investments might be needed to achieve those goals.

In today's slow-growth economy, projecting future returns is a challenge. While many aggressive investments returned in excess of 10% per year in the past few decades, there is a real possibility their returns may be half that, or less, for the coming decade. Using realistic return figures yields significantly different results compared to historical return figures, so be sure to keep things realistic. For the purposes of preparing for your future, it's better to underestimate returns than overestimate.

Another common mistake that affects calculations is inflation. Failing to account for inflation can have devastating consequences. Though inflation has been historically low over the past several years, if history is our guide, we should not expect money to go as far as it does today 10 years from now. The average annual inflation rate over the past 30 years is around 3%. That means if you need $100,000 in annual income today, you'll need about $155,000 in 15 years to cover the same expenses. To produce $100,000 in annual income today, you would need $2.5 million in assets earning a 4% annual return. But in 15 years—accounting for each year of 3% inflation—you would need $3.9 million to produce $155,000, which would be equivalent to today's $100,000. Don't make the mistake of ignoring inflation!

**3. Coordinate account beneficiaries with your existing will and estate documents.**

After a major life change, *Suddenly Singles* are often so overwhelmed they forget to update their will and beneficiary designations. After all, what are the chances? It's not fun to think about, but if you want the right people to receive your assets upon your death, it's vital to update these documents.

Many you can handle with the stroke of a pen or a keyboard. Before you update your will, update any beneficiaries associated with your brokerage, bank, retirement, and life insurance accounts. In the event of your death, your individual accounts are probated in court and therefore governed by your will. Additionally, you may want to check into making that individual account a "transfer on death" account, thereby avoiding probate court and immediately going to your designated person once a death certificate is presented. This can make the transfer of assets smoother and reduce the likelihood of your will being challenged. Some assets, like IRAs, retirement accounts, annuities, and life insurance policies, have beneficiaries built in. These too can be changed with a form and do not go through your will. Adding a joint name (with right of survivorship) can also ensure that, in the event of your death, the joint asset goes straight to the other person listed on the account or title. Be careful when adding names to large accounts, as this is considered a gift and gift tax rules may apply. Beneficiaries are not considered gifts, so it is not necessary to consult a financial advisor prior to making changes.

For typical size estates**,** you can do most account updates yourself, without the help of an attorney. However, it is smart to update your will and support documents with an attorney's help.

In the event your spouse dies and you are gravely injured, but you survive, a plan should be in place to handle your financial and medical decisions on your behalf. A Power of Attorney and Healthcare Proxy are minimum standards you need in place to operate your affairs. A Living Will containing your end-of-life wishes often accompanies your supporting documents.

A Plan for
Your Home

# A Plan for Your Home

## Keep it or list it?

Downsizing your living arrangement may be the smartest financial move you make after a divorce or death of a spouse, because it can free up a large amount of capital—at a time when increasing income or decreasing monthly expenses is critical. Big-impact decisions like these come easier when viewed through the guidance of a good wealth management plan.

If you are looking for your best life ahead, a good first step is to select a financial partner who specializes in giving you both a complete perspective on these big-impact areas. And housing is often the biggest.

The traditional idea is that staying in a paid-for or debt-free home is better, because you have no ongoing commitment on a potentially stressed budget. Yet investment and real estate market conditions should also be a key factor in your decision. The question is whether selling your home, accessing your equity, and investing it will better or worse than simply staying there. This is especially true when the real estate market is thriving. There are several moving parts, but your answer depends on the return you can get on your money.

One easy way to look at the decision is to keep the rule: You always want to make more than you spend. So if you can *make* more in your investment account than you *spend* on a mortgage, you can come out ahead.

Here are two general lines of thought:

- If you have only a small amount of equity in your home, the best step may be to keep the house. Yes, you might make more financially by leaving, but the hassle and cost of transition can make the decision less attractive.
- If you have a large amount of equity in your home, you might be able to sell it and generate enough to cover your housing and other monthly expenses moving forward—maybe even have some left over for Like To Haves and investments toward One Day Wants. As a result, you might greatly increase your flexibility and financial freedom by moving the equity tied up in your house into more accessible (liquid), interest-bearing and/or investable accounts.

"Downsizing your living arrangement may be the smartest financial move you make after a divorce or death of a spouse, because it can free up a large amount of capital—at a time when increasing income or decreasing monthly expenses is critical.

## Example 1: Paid Off Home

Let's say you have a $600,000 home without a mortgage. It's paid off. In 10 years at a 2% average appreciation rate, that home would be worth approximately $720,000. Unless maintenance costs are high, staying in your home creates the least hassle, plus it enables you to keep monthly expenses low because you have no payment.

If, however, you decide to downsize to a $300,000 condo or home and invest the proceeds at 4%, you could likely generate more long-term money, and find something with less upkeep. If you invest the remaining $250,000 (accounting for selling and moving fees), you could have a property that's appreciated to $365,000 plus a nest egg of $447,000 (6% annual return)—a total of $807,000 in 10 years. If your nest egg is invested more aggressively—let's say it generates a 10% annual return over the same period—your property would appreciate to $360,000 and your nest egg to $648,000—a total of over $1 million. This option offers potential upside return and flexibility. If your returns consistently make more than your mortgage, you might consider taking out at mortgage instead of paying cash.

Comparing these at the 10-year mark favors the downsizing and investing strategy if real estate continues to grow at 2% or more annually and the investment account grows at 6% or more annually.

## Example 2: High Mortgage Payment

If you have a mortgage payment of more than $2,000 a month, I recommend you look at changing your living arrangement to reduce your monthly costs. Remember, much of the first year of adjustment is trying to lower expenses—either out of necessity or out of choice—to rebuild assets lost in the recent transition. Lowering your monthly expenses by selling your home or refinancing could be one of the

smartest moves you make. My personal rule of thumb is that if it accounts for more than a 20% difference in your monthly expenses, it's worth assessing!

The bottom line is if you have a large home, you probably have a lot of equity tied up in it. In most cases, financial professionals will call it a "dead asset," because you can't do anything with it other than live in it. In other words, it can't produce you a return until you live there another 10 years. If it's not paid off, it's likely *the* biggest expense hurting your cash flow, which, in turn, affects your lifestyle. Being able to drastically reduce your housing costs is often the key to unlocking your best life moving forward.

Here are a few questions to ask yourself in determining whether to *Keep It* or *List It*:

**Does it make sense to cash in brokerage accounts and pay off your mortgage?** This would eliminate a recurring payment. However, it can also hurt your ability to reach future goals. Your objective is always to make the most and pay the least, in tax-adjusted terms. So if your brokerage accounts are making more—or have the potential to do so given your long-term risk tolerance levels—than you are paying on your loan, adjusted for any tax savings, then you should probably keep paying the mortgage. However, if your mortgage interest rate is high, and you don't quality for a lower interest rate for refinancing, it may be advantageous to cash in your investments to pay off your house.

**Are there other ways to access funds locked up in your home equity?** It might be advantageous to look into a Home Equity Conversion Mortgage (HECM), a type of reverse mortgage that allows you to gradually tap into your home's equity to pay for current expenses. While this is one of the least desirable options—because you may end up "Robbing Peter to pay Paul"—it is worth exploring in some situations.

**Is giving the home to a spouse in a divorce settlement the best thing to do?** Often this is the easiest but not necessarily the best move. It is how many attorneys begin the settlement process—particularly when children are involved—so one spouse can keep the kids in their school district and in the most stable living situation. While emotionally this may be a good move, it may have detrimental consequences financially, especially if the house or other assets are of considerable size. Why? Because often a large block of equity is tied up in your property, unable to produce funds for anything else. If a school district is important, finding a smaller home in the area may be a good compromise. Keeping the house in one name or agreeing to its future sale works fine if other assets (alimony, child support) produce enough monthly income to cover expenses. This is one of the most common mistakes and overlooked opportunities as emotions run high.

**Is refinancing your home feasible?** If it's been a few years since you looked at your interest rate compared to current rates, doing so could be the first step toward one of the most significant financial gains you can make. If current interest rates are at least 1% lower than that of your current mortgage, it is probably worth refinancing to achieve a lower monthly payment. Don't be afraid to look at longer-term mortgages as an option, either. Paying over a 15-year period indeed means your house will cost less in total, yet it is often wiser to free up the extra money each month for near-term budgeting needs and investment opportunities that can outpace the raw savings of a 15-year mortgage. It sounds counter-intuitive, yet a bird in the hand can indeed be worth more than two in the bush. In other words, meet with a licensed mortgage broker to explore your options. Most likely, friends and family can provide a recommendation on a mortgage broker who has helped them. This is often better than filling out a form online and being inundated with phone calls from pushy brokers.

A Plan for
Retirement

# A Plan for Your Retirement

## Can retirement plans help in the near-term?

Another big-impact decision is how to deal with large retirement assets like IRAs, 401(k)s, pensions and Social Security. These can affect your quality of life in dramatic ways, so reviewing them should be high on your priority list.

The mistake many people make is putting off reviewing these plans because they're meant for the long-term, and accessing them before age 59½ usually results in an additional 10% early-withdrawal penalty. Taxes are also owed, but you can't do anything about that! I recommend digging into three key areas. But remember, just because you *can* take payments doesn't mean you *should*.

## Mistake 1: Assuming you can't touch your retirement account without penalty

Making a withdrawal before age 59½ may invoke an early-withdrawal penalty. There are ways to withdraw, however, without a penalty. Using the proper rules allows some flexibility without exhausting all of the account's assets.

Section 72(t) of the IRS Code lists exceptions to the 10% early-withdrawal penalty, including death, disability or distributions received in substantially equal periodic payments over your life expectancy. Assuming you aren't too excited about dying or becoming disabled to access funds, this leaves the "equal payments" clause to explore for potential benefits. You must take that exact payment every year without variation until you are age 59 ½ or for five years (whichever is longer), and no additional 10% penalty will apply. Your financial advisor can help you estimate these penalty-free portions. There are also calculators available online.

Delaying payments generally works best. At age 45 vs. 55 on a $500,000 IRA, there is a $5,000 per year difference in income. At age 45, you could draw in the range of $19,000 per year, whereas at age 55, the payment increases to $24,000. Using this guideline when filing paperwork with your IRA custodian is far superior to withdrawing the same amount as a regular distribution and paying the penalty.

There are also special rules for retirement assets when it comes to divorce. When a 401(k) is divided into two accounts per the divorce decree (via QDRO), under IRS Publication 560, the spouse may withdraw assets directly from the plan without penalty. Once funds are rolled over to an IRA, this benefit goes away. The ability to withdraw penalty-free can be extremely advantageous.

Also, be careful in divorce settlement negotiations as to how large IRA assets are treated. Sometimes attorneys may "tax affect" retirement plans, discounting their values by the highest possible tax rate, which means the spouse receiving more of those benefits may gain an unfair advantage. Knowing how and when future withdrawals may occur, what the future tax rates of both parties will be, and a few other items will help all parties view these assets in the proper light for negotiating purposes.

**Mistake 2: Taking social security or pension payments too early**

Taking money as soon as you can is usually not the best long-term strategy. If you have other assets to work with, you may want to delay Social Security or pension income streams for a while.

**Remember:**

1. Each extra year you work adds another year of earnings to your Social Security record, and …
2. Higher lifetime earnings can mean higher benefits when you retire.

Pension plans are set up to offer several options at the death of the participant. Some pensions can be delayed or scheduled to pay out at a later date.

If your spouse or former spouse reaches Social Security age, you may be able to draw a benefit based on their work record and payments into the system. Many people make the mistake of taking Social Security payments as soon as they're eligible.

You can get Social Security benefits as early as age 62; however, your benefit will reduce if you retire before your full retirement age. For example, at age 62, your benefit would be about 25% lower than if you retire at your full retirement age, according to the Social Security Administration. So you may stop working before age 62, but if you do, don't forget that means you've paid less into the Social Security system and thus your benefit upon retirement is commensurately less, as well.

Of course, you may choose to keep working *beyond* your full retirement age, too, and this increases your future Social Security benefits in two ways, according to the SSA.

1. Each extra year you work adds another year of earnings to your Social Security record, and …
2. Higher lifetime earnings can mean higher benefits when you retire.

Securing a job for a few years—knowing that you can trigger your Social Security payment at any time, and the payment will increase the longer you hold out—is often a more motivating option than at first blush.

Also, your benefits will increase a certain percentage from the time you reach full retirement age, until you start receiving benefits, or until you reach age 70. The percentage varies depending on your year of birth. For example, if you were born in 1943 or later, 8% is added to your benefits for each year you delay Social Security beyond your full retirement age.

Likewise, if you really need the money or if the assets you have to work with are lower, taking the Social Security payment is likely a necessity, not a choice.

## Mistake 3: Believing everything you hear about rollovers

There is a tremendous amount of marketing from vendors wanting to keep your money in a 401(k) and from financial professionals touting the benefits of rolling funds to an IRA. Both groups make their money from your money, and both have valid arguments. The key is to understand both sides and choose which best serves your interests.

- The main benefit of keeping a 401(k) is that it carries lower expenses.
- The main benefit of rolling over funds to an IRA with a financial advisor is the possibility of additional investment opportunities—and invaluable advice on how to invest if you elect to pay extra.

One argument to leave assets in your company-sponsored 401(k) is the ability to withdraw funds at earlier ages. For example, some plans allow you to retire at 55 and withdraw funds without the 10% penalty. Checking for this early-withdrawal capability may be helpful, especially if you have large balances in your 401(k) and you need income before age 59½.

“One argument to leave assets in your company-sponsored 401(k) is the ability to withdraw funds at earlier ages. For example, some plans allow you to retire at 55 and withdraw funds without the 10% penalty.

Perhaps the biggest reason people decide to rollover funds from a 401(k) to an IRA is the potential for greater investment opportunities. Most 401(k) plans are too limited to a small menu of mutual funds, whereas money rolled to an IRA has virtually no limits on which investment opportunities can be pursued. And since mix, or diversification, is seen as one of the most important aspects of investing[2], putting your money in an IRA may be a good option, because it increases your diversification capabilities and enables you to easily retain and pay for investment advice. It also may enable you to access active money managers, which may not be feasible on your own or through a 401(k).

(2) 1986 Nobel Prize Award Winning Study, "Determinants of Portfolio Performance," Gary P. Brinson, L. Randolph Hood, Gilbert L. Beebower

Finding a
Trusted Advisor

# Finding a Trusted Advisor

## When to Contact a Professional

Not everyone is meant to work with an advisor. In fact, many people who have advisors may not be getting acceptable returns for their services. If you don't have one, look into it.

If you have an advisor who knows you, understands your situation intimately, and has the business model to support your current and future needs, you are fortunate. Whereas—let's say it nicely—if you have one who's never bothered to get to know you (your goals, causes, personality, etc.) *before* this transition, then he or she may not be the right advisor for you moving forward.

Generally, the more assets and accounts you have, the more you stand to gain through hiring a professional, especially one with expertise in both investment management and advanced planning. Planning can be especially useful, because it provides a way for all your financial assets to work more efficiently, eliminating waste and strategies that overlap or counteract each other.

One of the things I advise when choosing a professional is to first compare your assets and desired services to their typical client. One circumstance that happens too often is, as advisors' clienteles grow, the levels of service and quality of advice suffers. You want to protect yourself against this risk.

- If you find you have *fewer* assets or less complexity versus your advisor's typical client, you risk getting lost in the shuffle. Maybe this means your account isn't watched as closely, or you don't hear about the latest strategies that may apply to your situation.
- If you find you have *more* assets and complexity versus your advisor's typical client, you risk not having access to the expertise and resources you may not even know you require. Maybe this means you get exceptional attention and personalized service, but it may be at the expense of deep experience and expertise. Or maybe it means your advisor is using your accounts to expand his or her knowledge (i.e., you are an experiment or a test case).

Many advisors, such as myself, have moved to a team-based business model to better serve their clientele as it scales without sacrificing personalized service, depth of expertise or quality of advice.

It's important to ask prospective advisors to describe their typical clients, other types of clients they hope to attract, and how your situation compares to each.

People with small amounts to invest may not need to engage with a professional unless they have little knowledge of the arena or little time or inclination to learn. Investment products and access to advice have evolved so much over the years that small investors—with a little education and guidance, say from a trusted friend or family member with demonstrable experience—can make their own decisions and save some fees in the process. Many online sources have risk tolerance questionnaires, which point you to a pre-defined mix of investments. However, please keep in mind that when it comes to personalized service, a professional's input is invaluable.

## Top 3 Reasons to Hire a Professional

1. **When you don't know if you can reach your goals**

Even if you are excellent at goal-setting and spreadsheets, professionals usually have more experience and better tools to accurately gauge your financial situation, make projections and offer advice.

Monte Carlo projection tools are a good example. These tools are becoming standard because they help account for market volatility and its effects on your portfolio. Doing projections with Excel or using a constant interest or return assumptions do not provide the most accurate results, because they do not account for the market's ups and downs, which can build or erode value inconsistently from decade to decade.

These projection tools aim to prepare you for unexpected possibilities—like, say, you happen to retire right before a major "black swan" event like a terrorist attack, government shutdown or social upheaval that causes a major market correction. In other words, these tools help you plan for the unplannable so you are prepared for unpredictable events. Monte Carlo simulations are the minimum technology you can deploy to understand whether there is a gap between your goals and resources. These tools help us determine whether you can reach the goal and how long in general your money will last.

Learning to operate the initial projection is the price of admission. Most professionals know how to use the program to do more advanced studies and better understand factors that affect the program and your projections. However, even the results of these tools should be taken with a grain of salt, because no projection tool is perfect. Strategies tend to change over time, so while using such

projections is valuable, you and your advisor should constantly challenge your projections and look for new ways to affirm you're on the right path.

**2. When you need advanced planning (i.e., when you don't know what you don't know)**

Advanced planning comprises all your finances and portfolio decisions. It should cover items such as:

- **Wealth Enhancement Strategies**—tax mitigation, benefits analysis, debt and cash management.
- **Wealth Preservation**—insurance recommendations, liability measures.
- **Wealth Transfer and Giving**—estate planning, preparing heirs, planning for parents, philanthropic options.

Planning in these areas helps you answer questions such as:

- How can I save the most in taxes today?
- Is it better to pay more taxes today because money lasts longer?
- How and at what age should I take Social Security or pension income?
- What are the best ways to fund the cost of children's or grandchildren's college?
- Where is the best place to save money (pre-tax, after-tax, tax-free, tax-deferred) for my goals?
- Which accounts should fund my lifestyle needs and how (in what order)?
- How much and what type of life insurance do I need?
- What can be done to help protect my portfolio from the rising healthcare costs and aging-related expenses?
- How might my parents' needs affect my portfolio?
- How can I help protect my portfolio against liability or being unjustly taken?
- What is the best way to transfer my assets upon death?

- Would changing my strategy or investment approach give me a potentially better long-term result?
- Is there a better way to gift money to certain causes I feel strongly about?

Today, even with advancements in technology, it often takes a live human, as opposed to a software projection, to accurately identify, calculate and define your situation and answer the questions that matter most to you.

**3. When you're concerned the level of wealth management you're getting is inadequate**

Over the years and with advances in technology, investment management has become more standardized. There are a few things I deem important to separate general investment advisors from wealth managers who routinely work with high-net-worth clients. Knowing the definitions of the items below isn't as important as knowing the specific terminology to discuss with your wealth manager, so please have a comprehensive discussion with all prospective professionals about your access to:

- Top-flight institutional managers
- Various opinions on how markets will gain, lose or fluctuate (capital market assumptions)
- Forward-looking data assumptions for use in constructing portfolios
- Abilities to monitor balances and performance metrics for accounts held outside their firms
- Integrated investment recommendations for *all* accounts, no matter their location

Likewise, the definition of *advanced planning* itself may vary—especially when it comes to the level of proactivity, how to apply new ideas and strategies to your plan, and collaboration among your advisors.

Prospective professionals who can clearly outline a roadmap of systems and processes to prioritize these needs illustrate their firms' proactivity. Also, ask about industry certifications and what each means, such as CFP®, AWMA®, CIMA® and CFA®. These designations signify advanced qualifications for investment advisors and wealth managers and usually indicate ongoing proof of expertise in their fields. Ask prospective professionals whether they have a professional network or another means to learn about the best new ideas and assess whether or not they apply to your specific situation. Such conversations should be non-billable to you, in addition to collaborative meetings with your CPA, attorney, and other professional advisors.

Our process, for instance, includes an optional dimension to help specific clients hold a more meaningful conversation about life's purposes and passions, and how they relate to their portfolios. This is especially useful for clients who prioritize religious tithing, philanthropic giving, family giving and bequeathing. Through this additional step, clients engage in a deeper discovery process to connect their portfolio plans to their mission. As a result, we provide an Alignment Plan, which outlines avenues to accomplish mission-critical objectives outside of their immediate family circle. This is not traditional philanthropic planning; it is an assimilation of talents, leadership principles and financial capacity that takes "making a difference" to a new level. For more information, please contact our office.

The bottom line is the farther the zeros extend on the end of your net worth, the pickier you are—or should be—when hiring professional wealth advisors. They have hundreds of hours of training and

thousands of hours of experience, so they are paid well for doing vital work, but you deserve the right one to meet your needs. Do not lower the bar and accept less than you deserve.

# The Bottom Line

The bottom line is—whether you like it or not—you are suddenly single. You have a newfound independence. This independence comes with a new set of important decisions.

Some of your biggest decisions, especially if you have substantial assets and an established quality of life, revolve around:

- A plan for income
- Your home
- Retirement plans
- And when to hire a professional for help

Some of these decisions happen only once. Some require short- and long-term planning. Some focus on your wants, needs and future goals. Yet all can make a big impact on your quality of life moving forward.

Of course, you could delay these decisions—and risk playing catchup for the rest of your life. Or you could face them as soon as you are mentally and physically able, use them to build your confidence, and simultaneously increase your odds of finding the happiness you deserve—your *best life* moving forward.

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# About the Author

Shari Burnum, CFP®, founder and president of Investor's Resource in Madison, Ala., and branch manager and financial advisor with Raymond James Financial Services, is an independent wealth manger with nearly 30 years of experience working with individuals, families and investors with complex needs. She draws insights from deep experience in wealth management, as well as extensive research and good old-fashioned street smarts. You can reach Shari at shari.burnum@raymondjames.com and the Investor's Resource team at www.invresource.com and by phone, mail or in person at:

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## About the Team

Investor's Resource was started in 2000 to provide investors with substantial capabilities in the financial industry. Aligned with Raymond James Financial Services, an industry-leading Wealth Management Company, we employ a tightly aligned team of seasoned advisors who provide a distinctive level of integrated financial planning services, enabling our clients to expand their accomplishments into facilitating extraordinary careers and fulfilling personal life goals.

Our firm provides a team-oriented environment, which allows us to offer a wide breadth of services with the kind of deep expertise and personalized attention you deserve.

One of our proudest accomplishments is when we hear from clients who've been recommended to us from family and friends. Through these recommendations and community involvement, the Investor's Resource team has grown to rank in the top echelon of all Raymond James Financial Services branch offices nationwide.*

## About You

Finally, and most important of all is *YOU*, because no plan is complete without your specific personal and financial input. If you have found yourself suddenly single or you know someone who has, please reach out to us for a no-obligation discovery conversation or pass this book along to someone you care about who can benefit from its insights.

*With a little savvy and planning, your best life is closer than you think!*

*Membership in the 2016 Chairman's Council

The purpose of this publication is to outline some of the options available to people who find themselves suddenly single and with significant assets. While a general course of conduct regarding investments can be formulated from this publication, at no time will the author nor Investor's Resource, Ltd., nor Raymond James Financial Services, Inc., nor any other affiliated entity make specific recommendations for any specific person, and at no time may a reader be justified in inferring that any such advice is intended herein. Investing carries risk of losses, even to principal. Diversification and asset allocation do not ensure a profit or guarantee against loss. Investments and products mentioned may not be suitable for every individual. Information provided herein is expressed in good faith, but it is not guaranteed. The service that never makes mistakes does not exist. Long-term success in investing demands recognition of the fact that error and uncertainty are part of any effort to assess future probabilities. Please ask your broker or your advisor to explain all risks to you before making any investing decisions. All examples provided are hypothetical and have been included for illustrative purposes only. They do not reflect the circumstances of an individual person or the performance of any actual investment or investment portfolio. Future investment performance cannot be guaranteed and investment yields will fluctuate with market conditions. The projections or other information generated by Monte Carlo planning software programs regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results. Financial forecasts, rates of return, risk, inflation and other assumptions may be used as the basis for illustrations. They should not be considered a guarantee of future performance or a guarantee of achieving overall financial objectives. Results may vary with each use and over time. Past performance is not a guarantee or a predictor of future results. Raymond James Financial Services, Inc., does not provide advice on tax, legal or mortgage issues. These matters should be discussed with the appropriate professional.

Working with a Financial Professional does not ensure a favorable outcome.

In addition to rolling over your 401(k) to an IRA, there are other options. Here is a brief look at all your options. For additional information and what is suitable for your particular situation, please consult us.

• Leave money in your former employer's plan, if permitted Pro: May like the investments offered in the plan and may not have a fee for leaving it in the plan. Not a taxable event.

• Roll over the assets to your new employer's plan, if one is available and it is permitted. Pro: Keeping it all together and larger sum of money working for you, not a taxable event  Con: Not all employer plans accept rollovers.

• Rollover to an IRA Pro: Likely more investment options, not a taxable event, consolidating accounts and locations  Con: usually fee involved, potential termination fees

• Cash out the account Con: A taxable event, loss of investing potential. Costly for young individuals under 59 1/2; there is a penalty of I0% in addition to income taxes.



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