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SOCIAL SECURITY PLANNING

The Hidden Need for Life Insurance

Part of my practice is helping people figure out how to access their social security benefits. All of the analysis tools focus on the income one would receive, given different scenarios.

In each illustration, there is the assumption one person will pass away before the other; the charts and spreadsheets show the impact of that occurrence. In my experience, the person being advised focuses on the near term (immediate income need), and not the impact of an untimely death. The charts change dramatically, and if the correct type of planning is not done, this can create a series of problems for the survivor.

(Social Security – cont'd)

When one looks at social security cash flows, we see first, the higher earners' benefit. Then we see the benefit for the lesser earning spouse. Then we see a 'spousal plus-up' for that spouse. This enhances the income streams in the near term. A quick analysis displays the deficit between this income stream and sources of income from other sources. (401k, IRAs, Annuities, Part-Time work, etc.).

Explaining the benefit, the stress is on the maximum income, not the consequences of an untimely death. Acknowledging the human tendency to get used to a certain lifestyle on a certain income, the loss of an income stream can be more pernicious than the planner assumes.

A simple example goes like this:

"Herman, you and Bertha have a combined social security income stream that breaks down like this: Herman, your benefit is \$2,200 per month at full retirement age. Bertha, at full retirement age yours is \$800 per month with a 'spousal plus up' of \$400 to give you a benefit of \$1,100. So your total family income is \$3,300. You told me your needed income was \$5,000 per month so that leaves \$1,700 of pretax and medicare expense income."

Herman looks at Bertha. "Looks like we can live on \$3,300."

Bertha looks at me. "Herman is 5 years older than I am. What happens if he dies?"

"Bertha," I responded, "you would get \$2,200, but the additional \$1,100 goes away." Bertha pauses. "You mean I have to live on LESS income if Herman dies?"

"Yes."

Bertha looks at Herman. She looks at me. "I don't want to do that. Who knows what stuff will cost in 5 or 10 years? What can we do?"

She hit the nail on the head. There are only two ways to ensure this family has enough income on call to ensure Bertha, or in the case of her untimely death, Herman would continue their lifestyles. The first is, assuming they are both healthy would be life insurance. The advantages to life insurance are outstanding.

Social Security, (cont'd)

Life insurance is paid tax-free, free of claims of creditors, and bypasses probate. So, in either case, at a discount, the insured creates an immediately liquid asset for the beneficiary. The beneficiary can turn this in to an income stream, a savings to supplement their income, capital to cushion the sale of property while they move to a new home, et, al. Most importantly, it is the least expensive way to replace a lost income stream. In this case, \$1,100 per month.

The second method is asset intensive. Let's assume Herman and/or Bertha are uninsurable. They have assets that can be transformed into a stand-by income stream. The job is to replace at least \$1,100 a month of income. The reason we say 'at least' is because cost of living increases, and the escalation of Part B and D premiums, we have to plan for more income. Using part of their retirement assets (IRA, 401k, etc.), we convert mutual funds or stocks into an Indexed Annuity with both guaranteed income increases, and inflation protection.

Turning to Bertha, I laid out the options.

"Can we do both?" She asks. "I'm not confident of this market, and I want guarantees and flexibility in the future. "Herman?"

Because Herman understands that both of them are at risk for loss of funds to protect their retirement, he agrees.

Social Security is just the starting point. Because for most people it is the only guaranteed income stream they have, we need to treat it as the asset it is. At the same time, we need to see it not as an inexhaustible income stream, but as an alterable asset that needs complementary planning to make it work.

If one looks at this early enough, Life Insurance is the most efficient tool we have at our disposal.

This is the type of planning we specialize in at Scheiber & Associates. Contact us today at (952) 649-0504 to find out how to get your personalized detailed report, and find out how you can make this asset complete for you!

"To show partiality in judgement is not good. He who says to the wicked "you are just" – men will curse him, people will denounce him: But those who convict the evildoer will fare well, and on them will come the blessing of prosperity. He gives a kiss on the lips who make an honest reply.

Proverbs, 23-26

A SENSE OF URGENCY IS TREMENDOUS

by Charlie "T" Jones

Perhaps my findings are not the only solution, but with all my heart I believe the fires of greatness in our heart can be kept aglow only after we develop a sense of urgency and importance for what we are doing. I mean a sense of urgency to the extent that we feel it is a matter of life and death; and it is a matter of life and death, for in growing we are alive and in quitting we are dying in a sense.

If you don't believe this, talk to anyone who has lost the sense of urgency of getting things done and has been drifting in complacency, mediocrity and failure. If you are without a sense of urgency in your work, you know what I mean. A sense of urgency is that feeling that lets you know yesterday is gone forever, tomorrow never comes.

TODAY is in your hands. It lets you know that shirking today's task will add to wasted yesterdays and postponing today's work will add to tomorrow's burden. The sense of urgency causes you to accomplish what today sets before you. Thank God for the sense of urgency that can change a dull, shabby existence into a sparkling life. Right now, ask God to give you a sense of urgency. Believe that He did, and then act accordingly.

PERSISTENCE

by Les Brown

I believe there are three kinds of people. There are winners, who know what they want and understand their potential and the possibilities. They take life on. Next are losers, who don't have a clue as to who they are. They allow circumstances to shape their lives and their self-image. I believe there is a third group as well. This consists of potential winners whose lives are just slightly out of alignment. I call them wayward winners. It may be that they just need to learn how to be real winners. Perhaps they've hit a bump or two that has knocked them off course and they are temporarily befuddled.

Wayward winners are not lost souls; they just need some tweaking and coaching and nudging to get them back on course. Right now, there are many wayward winners out there who still believe that they have untapped talents. They plunge onward, believing that sooner or later they will find their way again. Other wayward winners have temporarily given up. They are damaged and disoriented, their confidence badly eroded. They tend to drift through life numbly. It is difficult for others to understand the rawness of a broken heart or the aching emptiness of an unguided spirit. Wayward winners know that there are possibilities out there, but too often they feel locked out from them. Some are afraid to risk any more because of what they have risked and lost already. I know now that as difficult as it may be for wayward winners to do, it is necessary to continue to test themselves. Even though you have been hurt before, it is the only way to grow. You know there are going to be tough times as you go about changing your life, so brace yourself and you will be able to handle them. Try this technique to help you through the difficult times of change and growth. Find four reasons why you cannot succumb to your fears and your troubles. For example: You have not yet tapped the talents given you. You want to leave something more for your children. You want to live life rather than letting life live you. You want to do what makes YOU happy.

It is in these rocky moments of bringing change to your life that you discover who you are. In prosperous times, you build what is in your pocket. In tough times, you strengthen what is in your heart, which is when you gain insight into yourself that leads to self-mastery and an expansion of your consciousness as a life-force in both your personal and professional lives.

UPCOMING EVENTS:

1. November 1st and 3rd, Retirement Planning Workshop, The Chart House, Lakeville, 5pm
2. November 29th and December 1st. Retirement Planning Workshop, Noss Restaurant, Lake City, MN, 5pm

Contact us through our website at www.srins.com to register.

Where is the Hay Stored?

The other day I had a meeting with a couple. They brought all of their information to my office, and we went over the planning their current advisor had done for them. All of their funds were in stocks, and variable annuities. During the course of our conversation I pointed out that the advice their advisor was giving them would potentially cause them to run out of money before retirement.

The conversation went something like this:

Q: Did your advisor look at your potential earnings from Social Security?

A: No.

Q: He has you taking cash disbursements from your Variable Annuities. Did he explain why to use this strategy, and not use other IRA assets?

A: No.

Q: Did he explain that you are first of all, all at risk in the market, and that by using annuity proceeds on a nonguaranteed basis that you are risking using up your one investment with a lifetime income guarantee?

A: No. He told me I had some funds in cash, and if the market went down that was a 'buying' opportunity.'

The best metaphor for this situation would be a farmer who dried all of his hay for the winter and stored 95% of it in his barn. The other 5% was stored in another place. The farmer, wanting quick access to the hay to feed his animals, wanted it all right there, handy. Later that winter the barn burned down.

With the loss of the barn, the farmer also lost 95% of his hay. The animals quickly consumed the 5% he had stored elsewhere. His animals were hungry. The farmer had no more money to buy more hay. He faced this dilemma: Start selling the animals one by one to get enough money to buy more hay to feed those left? Or borrow from others to get the money to replace the hay? The visitor to my office responded. "Well, I just met with my advisor last week, and he has made money for me in the past. Why would I change strategy? What has worked for me in the past will continue to work in the future."

He and his wife left, still not aware of their peril. I just hope the wiring in their barn doesn't short out.

THE ESTATE PROBATE PROCESS

Probate is simply the Latin word for *prove*, which means that the estate probate process is the process by which your will is brought before a court to prove that it is a valid will. The courts charged with this responsibility are generally known as **probate courts**, which may actually supervise the administration or settlement of your estate. The probate process is intended to accomplish **three primary objectives**:

1. To preserve estate assets.
2. To protect the rights of creditors in the payment of their claims before the estate is distributed to the heirs.
3. To assure that the heirs receive their inheritance in accordance with the terms of the estate owner's will.

Once the estate's personal representative (executor or administrator if the estate owner died without naming a personal representative) is approved by the probate court and posts any bond that is required, the probate process begins. While it is not uncommon for the probate process to require a year or more and considerable expense before the estate is finally settled, proper planning can serve to minimize the impact of the probate process on your estate and heirs.

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