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Your Questions Answered

Heritage Investors Answers Questions from Everything Knoxville Readers

Featured in the December 2014 issue of Forbes magazine, Knoxville-based Heritage Investors founders, Justin Goodbread and Jim DeTar, provide a boutique-style wealth management experience to their clients. Both CERTIFIED FINANCIAL PLANNERS™, Justin and Jim offer a comprehensive array of services to individuals, families, entrepreneurs, and non-profits while maintaining a low CFP® to client ratio. Occasionally referred to by their clients as their very own CFOs, Heritage Investors provides financial, retirement, strategic business, investing, financial wealth management, tax, and estate planning services to their clients.

Reader Questions of the Month

EK: How can a person nearing retirement protect themselves against the possibility of running out of money? The answer always seems to be "buy an annuity."

Justin: Well, annuities receive a great deal of press today. They seem to be promoted just about everywhere and by everyone. Recently on a local radio station, five different "financial experts" were promoting index and variable annuity products as the perfect solution to everyone's financial needs regardless of their personal circumstances. Even Tony Robins, in his book "Money, Master the Financial Game," endorses the use of annuities. In stark contrast, many of the country's top financial experts, including Dave Ramsey, Susie Orman, and Clark Howard, strongly advise against the use of these high commission annuity products that are marketed as a one-size-fits-all solution. It's easy to understand all of the confusion among today's retirees.

But, before I discuss annuities, there are a few steps that a person nearing retirement can take, besides purchasing an annuity, that can reduce the potential of running out of money during retirement:

1. Eliminate debt! Debt is often the single greatest transference of wealth from your pocketbook to someone else's. By paying off the mortgage on your home prior to retirement, you can actually lower your monthly income requirements.

2. Create a budget! Yes, I said the "B" word! As you transition from the accumulation phase of your life to the distribution phase (living off your accumulated assets) of life, you will need to understand exactly what your monthly expense will be.

3. Watch out for the grandkids! Often when we retire, we occupy our much of our time with family, friends, or charities. And while a worthwhile pursuit, it's easy to start spending your accumulate savings on the people or things we love and value.

4. Avoid large purchases! I call this the "big truck syndrome." We have all seen the retiree driving around in the expensive new car or truck, as in my case. During our working years, caring for our family was our first priority, so the dream of owning your dream car was, well, just that – a dream. In retirement, we are tempted to fulfill our postponed dreams. But, I recommend caution. Avoid unnecessary large purchases that could erode your retirement nest egg.

Now back to annuities. Everyone is in a different place financially. I am not suggesting that any financial product should always be used or always be avoided. I've observed the pros and cons of annuities. While they MAY have a place in your financial plan for the future, I would only recommend them as a last resort. Be weary of those "financial experts" who ONLY offer annuities. You'll be well served to remember the old adage that "there is more than one way to shine a penny."

I have three pieces of advice for this reader:

» Diligently research all of the products and services that meet your needs at the lowest cost. Remember that annuities by nature usually carry high fees. Even Equity Index Annuities have fees, but because this product may not be regulated in the same capacity, as a typical security related product, the costs are easier to disguise.

» Work only with a Fiduciary who offers the highest level of customer service, and be weary of any "advisor" who only promotes high sales commission products. A CERTIFIED FINANCIAL PLANNER™, NAPFA member, or a Fee-Only advisor are great choices when searching for a personal Fiduciary.

» Only utilize those strategies that offer the least amount of risk to achieve your goals. Obviously there is a reward to risk, but an experienced planner with your best interest in mind will examine every component of your life as a means to building your net worth within the risk allocation you are comfortable with.

One last thought on Equity Index Annuities: In a more recent blog post on our blog, www.planningisfun.com, I addressed in detail the precautions you should exercise when considering an Equity Indexed Annuity and pointed out FINRA's warnings on these often misunderstood products.

EK: How can I enhance the return on my investment without assuming too much risk?

Jim: The question itself suggests this person is risk adverse. We would look to maximize this person's net worth by taking a comprehensive approach to his or her unique circumstances. The specific answer to this question will vary based on the individual, their needs, and risk tolerance level. Given today's low interest rate environment, where Money Markets and Certificate of Deposits (the default investment for the risk adverse) are yielding roughly 1% or less, you might be well advised to pay down high interest debt.

For example, let's say that you have $25,000 in cash above and beyond your emergency fund. Instead of placing this money in an interest bearing investment earning 1%, why not use these funds to pay off your credit card debt, car loan, business loan, student loan, or home mortgage? You can save much more by paying down or eliminating higher interest debt than you can ever hope to earn in a low interest CD.

If you have a question for either Justin or Jim, please direct it to info@everythingknoxville.com or call them directly at 865-690-1155. Remember you can connect with them and Heritage Investors via Facebook, LinkedIn, Youtube, Twitter (@knoxadvisor), or their blog (www.planningisfun).

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