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5 Cardinal Rules Of Retirement Planning

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Whether you are currently retired or planning for retirement, there are five cardinal rules investors must follow to provide a stress-free retirement.

There is an investment product that will achieve all five of these rules, automatically. Although it has been around for almost two decades, many haven't heard of it. It is called the Fixed Indexed Annuity (FIA), and it has a proven track record so your retirement plan will navigate smoothly through your retirement years. It's like putting your car on cruise control. So, let's examine the FIA under a microscope to understand its role as the "financial spoke" of a retiree's complete "retirement wheel."

1. Never Lose Money
The FIA is designed as a fixed annuity that guarantees against principal loss. However, it is also designed to track an index of the stock market. The first FIAs only tracked, or looked at, the S&P 500 to receive its annual rate of return. Due to the innovation of the insurance carriers, today's FIAs have many market indexes to track, not only the S&P's, but also others such as the DOW, the NASDAQ, Russell, Barclays, and/or even commodities as well. Many of today's FIAs have the ability to track a blended index of one or more of the indexes and allow the investor to allocate the percentages he or she wishes to participate in. But, here is the key: The FIA only looks at the index to receive its rate of return. It never actually buys any of the market positions. And by design, the FIA only participates in the up-growth potential of the market index, never participating in downside loss. Therefore, removing 100% of the risk of losing your money instantly achieves this first rule. It locks in any and all gains to the principal, so it's never exposed to any risk of loss. I often tell my clients, "We may use your principal, but we will never lose your principal."

2. Legally Reduce Or Avoid Taxes Whenever Possible
By IRS design, a fixed annuity grows tax-deferred. The investor never pays taxes on any of the FIA's growth as long as the growth remains in the annuity. Then, the investor only pays taxes on just the amount he or she withdraws. This feature of the FIA is referred to as triple compounded interest.

A second feature of the FIA being a tax-deferred investment is that the interest it receives is not included in the Modified Adjusted Gross Income (MAGI) calculation. MAGI is very different from Adjusted Gross Income (AGI). MAGI is the calculation used to figure a 2nd taxation on a retiree's Social Security income. If the total MAGI annual income crosses the threshold set by Congress, then up to 85% of his or her Social Security income is taxed again at their tax level. So, what are these levels?

1. If you are single, the 1st threshold floor is \$25,000 - \$34,000. 50% of your Social Security income is taxed at your tax bracket.
2. If you are single, the 2nd threshold floor is \$34,001 and more. Up to 85% of your Social Security income is taxed at your tax bracket.
3. If you are married, the 1st threshold floor is \$32,000 - \$44,000. 50% of your Social Security income is taxed at your tax bracket.
4. If you are married, the 2nd threshold floor is \$44,001 and more. Up to 85% of your Social Security income is taxed at your tax bracket.

MAGI also uses income from other sources to calculate the threshold. Income from dividends, taxable interest,