

# Examine Your Bucket List for 2014!



- 1) Cash or Cash Equivalent
- 2) Roth IRA
- 3) Qualified (Retirement)
- 4) Non-Qualified
- 5) 529 Plans
- 6) Foundation

When most people talk 'Bucket List', it entails all of the items you wish to check off before your demise. I have never been a huge fan of someone else's Bucket List as that is; 'their list'!

Everyone has their own list of things they want to do or simply not want to do during their lifetime. Some items are small and some are grandiose; some may be travel related and some may be more to give a sense of accomplishment.

This is the same scenario for your own financial bucket list. I have a basic blue print of six that I constantly review for clients, as well for myself. **Each person has 'some' sort of financial bucket list**, regardless of their economic circumstance. I will attempt here to examine the

six buckets and how over time they can and do intertwine with each other as time goes on. Let me first point out, that tax rates are one of the main culprits that has created a need for ALL of the various buckets.

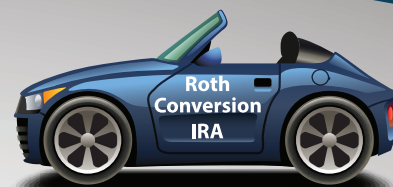


## The First Bucket: CASH (short term)

Cash is generally a savings, checking, money market, and/or CD. In the old days (between ten and thirty years ago), there were large variances in interest rates with each type of cash savings. Those days are gone. Currently, interest rates at financial institutions are miniscule for most Cash investments. Not only are they miniscule, they are fully 100% federal and state taxable. If you are earning .25% in a money market, you may actually be earning closer to .15% after taxes. After you factor in inflation, there can be a negative return over the long term. Short Term instruments like these various savings are still critical to long term success. If you have sufficient savings that will allow you three to twelve months of expenses, the chances of you needing or wanting to tap into more important long term savings vehicles are reduced. Having a sufficient short term Cash position can help in many respects to your overall condition and also reduce stress.

## The Second Bucket:

### ROTH IRA & ROTH CONVERSION IRA



**Wow, these financial vehicles are simply not used enough!** If you meet certain income criteria, you can contribute up to \$5,500 per year to the Roth IRA (\$6,500 for Age 50 and over). The principle (amount invested) can be assessed ANY time for ANY purpose; before you are retired. That is not the most important part. The growth on the Roth IRA can be withdrawn tax-free once you turn age 59 ½. **There are NO Required Minimum IRA Distributions on the Roth IRA at Age 70 ½; they can keep on growing.** Talk to someone that is age 70 ½ or older and ask the amount of taxes they are paying on their Minimum Required IRA Distributions. Clients in the lower tax brackets are generally paying 20% or more to include state (state taxes vary). Some are paying north of 40% in combined Federal and State taxes on funds withdrawn out of their retirement accounts!

**This is why the Roth vehicle is so critical. The argument of 'I make too much' does not always hold water.** There are now Roth 401Ks inside your existing Traditional 401K. Also, for high earners; you can contribute to an AFTER Tax IRA and not take the tax deduction. Then, immediately convert to a Roth IRA. There is not income limit on a Roth IRA Conversion. This works best if you do not own an IRA. It makes the Roth Conversion 100% tax-free (as the Trad. IRA was an AFTER Tax IRA).

## The Third Bucket: QUALIFIED ACCOUNTS



This is the most common bucket, usually in the form of a 401K, Traditional IRA, Thrift Savings Plan, 403B, or 457. These are easy to invest in as the funds are pre-taxed and come out of your paycheck usually 'before you get paid'. When the motto of pay yourself first is used, it is usually this instrument that is being considered. By actively contributing in these types of accounts, you may be keeping your taxes lower on an annual basis during your working years. However, the one negative is the way these are taxed when you are on the back end and withdrawing these funds. These accounts generally cannot be accessed until age 59 ½. This bucket is critical as we have watched pensions (including federal government) be reduced or negated altogether. The Three Legged Retirement Stool USED TO BE: Social Security, Pension, and Personal Savings. The Qualified Accounts are now a much larger part of Personal Savings. The most you can contribute in year 2014 is \$17,500. If you are age 50 or older, this jumps to \$23,000 with the catch up provision.

## The Fourth Bucket:

### NON-QUALIFIED OR



### NON-RETIREMENT ACCOUNTS

These are investments being held outside of all retirement wrappers. They are usually taxed more favorably upon withdrawal than traditional Qualified Accounts. You can invest as much as you want to outside of retirement into a Non-Qualified Account (no limit to add or withdrawal). These are typically called 'After-Tax' investments. This bucket is critical in that these funds can be used to subsidize your retirement, buy a primary residence, buy a secondary residence, buy into a long term care facility etc. This may be one of the most neglected buckets, as many people concentrate solely on their retirement accounts.

## The Fifth Bucket:

### 529 COLLEGE SAVINGS



**Think of this bucket as a Roth IRA for college.** I am often asked, "What if my child, grandchild, niece, or nephew doesn't go to college or doesn't need all of the funds?" This is a great question. College costs are soaring at 5 or 8% per year, so having too much in education funding has not been a problem in my experience. If you have a brain child and he or she get a full scholarship; the account can be exchanged to another family member. **This is a FAMILY education fund that can and has been passed on from generation to generation.** Some states like North Carolina (starting 1/1/2014) have decided to no longer give their residents an 'upfront' tax break on the contributions. However, the growth is still tax-free and can be used for any state public or private college tuition, room and board, and fees. Laptops are considered eligible 'fees'. You can make a tax-free withdrawal for 'fees'. ALSO, by utilizing the 529, you are then less likely to tap into your retirement, home equity, Roth IRAs, and other non-qualified accounts to contribute to college expenses. Do you see why each of these buckets is critical to the big picture?

## The Sixth Bucket:



### YOUR OWN FOUNDATION

**This is probably the least known bucket, but gaining in popularity.** If, for example, your last name is Smith, you can start your own Smith Foundation with a mutual fund company. ALL (100%) of your contributions to YOUR foundation will be tax deductible, just like you are donating to your favorite charity. You maintain control of your foundation and can distribute grants as long as they are 501c3 charities. Example: If someone in your family is lost to a particular illness like breast cancer; you can open up your own Foundation with minimal paperwork and distribute grants to a breast cancer research center. The number one question I get is "Why don't I give directly to breast cancer?". That is an option, or you can give away the 'growth portion' in your foundation as the investments grow. However, you lose the benefit of the initial tax free contribution to set up the foundation. Over time, you can end up giving away more than your initial contribution. **The foundation will have unlimited gains (or loss) over time just like your other financial buckets.** With the standard Pension evaporating for many, these buckets are more important than ever. . . especially the first four.

Please feel free to call the office to make an appointment to see where you can improve on on your Bucket List. I hope you have a Happy and more importantly Healthy 2014!

*Sincerely,*

Andrew D. Wade, CFP®  
President