C.L. Sheldon & Company
Fee-Only Financial Planners

1. Risk Management
    a. SBP. SBP is one of the few “products” available that hedges against both inflation and longevity risk. This is an important benefit and should not be discarded lightly. For this reason, in most cases SBP is a good choice for a retiring senior officer/NCO. It may not be appropriate in the following situations
        i. Military married to Military
        ii. Special Needs Child
    b. Disability Insurance. Your ability to produce income is a very valuable asset. You may want to protect this asset with Disability Insurance. You are two times more likely to be disabled prior to age 65 than to die prior to age 65. You can expect that no-more than 60% of your salary will be replaced
        i. Definition of Disability
            1. Own Occupation: Can’t do your current job
            2. Any Occupation: Can’t do any job
            3. Modified Any Occupation: Can’t do current job but can do a similar job (surgeon becomes professor in Med School)
        ii. Taxation
            1. If provided by employer as a pre-tax fringe benefit then benefits are taxable
            2. If self-purchased or purchased through employer with after-tax dollars, the benefits are tax free
2. College Planning
    a. GI Bill. Be careful when combining GI Bill benefits with scholarships. Scholarships may become taxable or scholarship may reduce the amount of GI Bill Benefits paid
    b. Transferring assets to the student. Gifting appreciated assets to a student may reduce taxes by up to $500 per year. Be careful of kiddy tax rules. If you gift assets with more than approximately $2,000 in gains, the gains will be taxed at your rate (check with your tax advisor for current limits)
    c. Hire your student. If you own a business, hire your child. The money you pay him will be tax deductible to you and taxable to the child (at a lower rate).
    d. If you live in a state with state income tax, check and see if there are tax advantages to routing the money through a state-sponsored 529 plan.

3. Tax Planning
    a. Your taxes are low. If your allowances were taxable your taxes would go up by approximately $7,000
    b. Your marginal tax rate may be higher than you think. As you approach the $150,000 AGI range, many tax deductions and credits are reduced/eliminated. This results in an higher effective tax rate as your income increases through the phase out range
    c. Be very careful if you do a W-4. You need to account for the fact that your first dollar earned as a civilian will be taxed at the 15% or 25% rate. Unless you plan accordingly, you will under withhold and owe a significant tax bill. It could approach $8,000 the first year. If your income (retirement and civilian income) is approaching $150,000 you should be withholding around $2,000 per month total (check with your tax advisor)
    d. ObamaCare Surtax could be a factor in your investment and tax planning. If your combined income is greater than$250,000 (Married Filing Jointly), your investment income will be subject to a 3.8% surtax. Be especially careful if you are selling investment real estate or converting a Traditional IRA to a Roth IRA
    e. Work Hard to reduce your Adjusted Gross Income. Ways to do that include.
        i. 401(k) contributions
        ii. SBP payments
        iii. Deductible IRA
        iv. Reducing Retirement Income due to retroactive disability payment (IRR 780161)
        v. Gift appreciated assets
        vi. Tax Efficient Investing
4. Retirement Plans
    a. To be a qualified plan, a plan (amongst other things)
        i. Not discriminate
        ii. Vest within certain limits
    b. Terms
        i. Pension = Mandatory
        ii. Profit Sharing = Substantial and Recurring
        iii. Defined Benefit = Output is “guaranteed”
        iv. Defined Contribution = No guarantee on output

c. More Terms
    i. Defined Benefit Pension Plan = Similar to Military Retirement
    ii. Defined Contribution Pension Plan = Guaranteed input with variable output (Cash Value Plan, Target Benefit Plan)
    iii. Defined Benefit Profit Sharing Plan = Does not exist
    iv. Defined Contribution Profit Sharing Plan = Separate Account, Employee Stock Ownership, 401(k) matching

d. 401(k) (403(b) and TSP
    i. Employee Defers a portion of income
    ii. Employer may provide matching funds
    iii. Average deferral percentages must not be “out of balance”, unless the plan is a safe harbor plan
        1. Matches 100% of first 3% and 50% of next 2% of deferred salary
        2. 3% Automatic Contribution

e. Vesting
    i. Defined Benefit Plans
        1. 5 year Cliff
        2. 3-7 year Graduated
    ii. Defined Contribution Plans
        1. 3 year Cliff
        2. 2-6 year Graduated
    iii. 401(k) Safe Harbor, own contributions and earnings on them: Immediate

f. Allowed Discrimination
    i. Social Security Integration: Skews profit sharing contributions towards those who earn more than $113,700 (2013)
    ii. Age Weighted Contributions: Much like catch-up contributions, allows employer to contribute more towards older employees

g. TSP
    i. Take your time. You have no deadlines
    ii. Consider leaving funds there
        1. Low fees
        2. G Fund
        3. May interfere with other investing plans if you move it (Back-door Roth conversion)
    iii. If you move the funds, do a trustee to trustee transfer. Do NOT take physical possession of the funds.

5. Estate Planning
    a. Two Estates
        i. Probate and Taxable
        ii. You may have more than one Probate Estate
    b. Probate Estate
        i. Includes everything that passes via your will
        ii. Real Estate probates in the state where it is located
    c. Reducing Your Probate Estate
        i. Why?: Privacy and Expenses
        ii. How
            1. Joint Ownership
            2. Payable on Death Accounts
            3. Change Ownership
            4. Trusts and Business (Useful for Real Estate)
6. Summary
    a. The value of your retirement pension is in excess of $1,000,000 (it looks pretty cool to see it written out)
    b. If you have any questions or need assistance I can be contacted at
        i. (703) 542-4000
        ii. (800) 928-1820
        iii. Curt@CLSheldon.com