RETIREMENT HELD HOSTAGE

How To Rescue Your Retirement From Bad Advice

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DEDICATION

To my wife Michelle, for being my biggest fan and providing me with rock-solid support.

To my dad, for giving me the opportunity and direction to positively impact many lives. Thanks for believing in me.

To my mom and Sonny, for raising me with razor-sharp determination and a die-hard work ethic.

To my Lord, for your sacrifice and for giving me a passionate life.

ABOUT THE AUTHOR

Rob Russell's specialized advice is valued by *The Wall Street Journal,* FOX News and *U.S. News & World Report,* but he is NOT from Wall Street royalty. He is not part of the system.

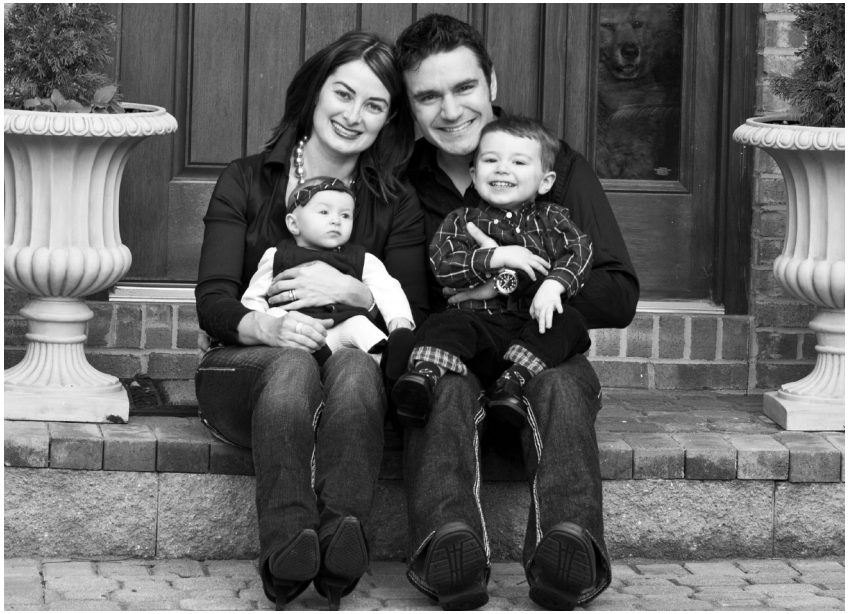
With a heart of a skeptic, Rob set out to uncover ways to create and preserve wealth in both good and bad markets – ways that didn't involve the failed strategies of "buy and hope," mutual funds, or divining the actions of the U.S. government and Federal Reserve.

In this book he helps you unshackle and unleash the true potential of your retirement and put you squarely back in control of your financial future. Within these pages he shares easy-to-understand strategies that have propelled him and his company into the national limelight.

Mr. Russell is CEO/CIO of Russell & Company and works with conservative, "self-made" clients throughout the United States and abroad. Rob is a life-long resident of Ohio, where he lives with his wife and children.

He hosts a radio show, "Retirement Rescue Radio," every week on News Talk Radio WHIO and writes the "Smarter Investor" column for *U.S. News & World Report.*

Rob enjoys traveling, cooking, playing soccer and creating memorable moments with his family.



FOREWORD

You are holding this book in your hands because you have concerns about your retirement or want to confirm you are on the right track. This is a valid pursuit on your part, as we are among the first generation of people in modern history here in America who will likely be totally responsible for our own retirement.

The days of fixed lifetime pensions are almost gone. The government's ability to provide a reliable retirement is questionable at best. And your family members may be in worse shape than you are. Having your destiny in your own hands may feel scary, given economic and world conditions, but in reality, being in your own pilot's seat is the safest place to be.

Retirement has always put me in mind of a children's teeter-totter in a park or school yard. One side starts on the ground and rises until it reaches its zenith, when the other side touches the ground and starts upward. When you begin your work life, your retirement funds are at ground level, but through your working years, they move upward until, hopefully, they reach their high point at the moment you choose to retire. Then they will support you through the ride safely back to the ground.

If you remember playing on a teeter-totter, you know that you want someone reliable and dependable on the

other end, because if they jump off, bounce around, or slide forward, you can be in for an uncomfortable ride or plummet to the ground.

Retirement is not an age; it is an amount of money. I have seen recent reports that tell us fully 85% of Americans do not enjoy or receive fulfillment from their jobs. This is sad in and of itself. If you are one of these unfortunate individuals, commit now to make career changes as soon as it is practical.

I was talking with a frustrated individual recently who told me he only had seven-and-a-half years to go. Not understanding what he was saying, I asked, "Seven-and-a-half years until what?" He explained that he only had seven-and-a-half years of his miserable, disgusting job until he could retire. This is one of the saddest scenarios I can imagine.

In the news not so long ago there was a report about an individual who committed a homicide and only received a sentence of six years. Staying in a "miserable and disgusting" job for one day is too much. On the other hand, if – like me – you are one of the fortunate individuals who receives satisfaction and fulfillment from your work in addition to income, retirement may simply be a comfortable safety net or supplement as you continue pursuing your passion.

Recently my father retired after working in an organization 56 years. At age 80 he decided to step aside, although he will still serve as chairman of the board for three additional years. Retirement for my father was a life decision, not a financial decision, as he could have

financially retired at least 25 years sooner than he did. A proper retirement plan simply allowed my father to do the right thing at the right time for the right reasons.

This book will cause you to review, think and act. You spend many thousands of hours earning your living, a portion of which goes into your retirement. If you exchanged thousands of hours of your life to get something, it's certainly worth a bit of time and effort in the coming days to make sure that your money is working as hard for you as you worked for it.

In my work as an author, speaker, columnist, movie producer and television network owner, I meet thousands of people who represent every economic strata of society. These people all see money as different things. They may look at money as new cars, new clothes, luxurious vacations, children's college education, or any number of other things. In reality, money and a retirement fund represent nothing more or less than choices. Money and income give us options. These options are important during our working years, but become vital in retirement.

This book is designed to help you make the right decisions now so you will have the right choices later.

– Jim Stovall

Author, "The Ultimate Gift" and "The Lamp"

Emmy Award-winning TV producer

AUTHOR'S NOTE

"Retirement Held Hostage" is an eye-opening collection of innovative strategies to help retirees and aspiring retirees work toward a successful future. Bookstores are cluttered with many financial self-help books, but this guide to rescuing your retirement from bad advice is tested in the trenches of the heartland and provides real-world strategies by one of the top advisors in the country.

Readers are reminded that the concepts learned from this book are defined in a more general manner, and your individual circumstances may differ. When implementing the strategies herein, please note that there's no substitute for a well-equipped and expertly trained wealth advisor. To help you find and hire the right advice-giver I've included a handy step-by-step guide later in this book.

In addition, laws in this area are complex and always changing, so it's advisable to employ a qualified legal professional when updating your wealth plan. Last, but not least, regardless of what any financial professional tells you, there is no perfect investment. Every investment product has pros, cons and "strings attached," so be sure you understand these before investing.

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Introduction

WHY MANY FAIL TO LIVE UP TO THEIR RETIREMENT DREAMS

"Getting to the summit is optional; getting down is mandatory."

– Ed Viesturs

Mount Everest climber

Is your retirement being held hostage? Are your retirement dreams being held back from reaching their peak potential? Do you believe there could be wiser, more effective ways to preserve and create wealth and take income in retirement?

If so, then you found the right book. Through my years working as a total wealth manager for affluent individuals, I've discovered that most advice given by advisors is bad advice. Unintentionally, of course, but bad nonetheless. Consequently, my goal of writing this book is to help you free your retirement by rescuing it from bad advice.

The first step in putting you back in control of your retirement is to help you focus on the right things. The things you can control. Far too often we focus on things we have no control over, like what goes on in Washington, Europe, or on Wall Street. Do these things affect your retirement? Sure, but you cannot control them. Let's focus on what you do have control of and make wise and informed decisions to get your retirement back on track and back in the black.

Each section of this book is laid out to help you conquer the bad advice that is holding back your retirement from its peak potential – be it over-taxation, antiquated investment strategies or the next big bubble.

Chances are, if you're reading this book you have a retirement nest egg worth preserving. Congratulations! The good news is that you're one of the few who has saved and planned carefully for one of the biggest events in life: retirement. The bad news is that you're only halfway through your journey of life, and this is where the most

disastrous mistakes can happen to retirees and aspiring retirees.

You see, this is the point in their lives when most people stop planning. They think they've reached the

How long do you think Everest climbers prepare for the treacherous and potentially deadly journey? Do they focus on just the first half of their journey, the ascent? Or do they train, prepare and condition for the ascent AND the descent? How is this different from your financial preparation for and during retirement?

finish line (retirement), and this is where their wealth plan "matures." They think that if they rebalance their investment portfolio, buy the right insurance, and have a will or living trust that they are set – they can just coast on autopilot. This couldn't be farther from the truth!

Your financial life is akin to climbing Mount Everest. Sounds weird, but it's true. Mount Everest is the highest mountain in the world (the size of 20 Empire State Buildings), which makes it the mecca for the most daring climbers. The difficulties of climbing Mount Everest are legendary: massive avalanches, hurricane-force winds, hypothermia from temperatures dipping to -76°F, mile-long crevasses and zero visibility snowstorms all lie in wait for unprepared or unlucky climbers.

How long do you think Everest climbers prepare for the treacherous and potentially deadly journey? Do they focus on just the first half of their journey, the ascent? Or

do they train, prepare and condition for the ascent AND the descent? How is this different from your financial preparation for and during retirement?

If you can ascend the mountain, reach the peak and then descend – all without dying – you join the elite few. The same applies to your wealth plan. If you accumulate enough savings for retirement (ascending the mountain),

It's important to play a strong first half of your life, but it's all about the score at the end of your life that determines whether or not you and your family win or lose. What do you want the score to be at the end of your life? If you're ready to preserve and create more wealth in retirement, then read on, brave climber!

enter retirement with a strategic income plan without the risk of outliving your money (the peak), and pass a legacy onto your family/charity without taxation/probate (the descent) – all without your wealth plan "dying" – then you, too, will join the elite few.

I'm sure you're no different than the clients I've helped over the past several years. They've come to me with a nice sum of money saved for their retirement years. They were proud of their accomplishment, financially independent and secure. Unfortunately that's where the problem lay. They were so focused on ascending Mount Everest (accumulating their nest egg), they had no plan for what to do when they reached the peak (retirement) and how to descend safely (preserving/distributing their nest egg).

Let me make another comparison for the football fans reading this book. Everyone in my family is a die-hard Ohio State Buckeye fan. (Go, Bucks!) When we huddle around the TV to watch a game, we pay little attention to the score at halftime. Loyal OSU fans know that the team has the uncanny ability to stink up the first half and rally during the second half. See, it's not the score at halftime that matters. It's the score at the end of the game that determines who wins and who loses.

Hopefully, the light bulb just went off in your mind. Retirement is halftime! It's important to play a strong first half of your life, but it's all about the score at the end of your life that determines whether or not you and your family win or lose.

What do you want the score to be at the end of your life? If you're ready to preserve and create more wealth in retirement, then read on, brave climber!

Quiz

HOW BADLY DO YOU NEED A RETIREMENT RESCUE?

"There's very little advice in men's magazines, because men don't think there's a lot they don't know. Women do. Women want to learn. Men think, 'I know what I'm doing, just show me somebody naked.'"

– Jerry Seinfeld

How secure is your retirement plan? Are you prepared for the next bubble? Are you certain that you won't run out of money? Are there cracks in your tax strategy or estate plan that money could be falling through?

The following quiz addresses some of the biggest planning errors and mistakes I've seen aspiring retirees and retirees routinely make. Take this short quiz, grade your score, and discover your level of financial security.

1. When was the last time your advisor and attorney met to discuss your estate plan?
   _____ Never (2 points)
   _____ Years ago (1 point)
   _____ Within the last 12 months (0 points)

2. Within the last 10 years have you been unhappy with your investment returns?
   _____ Yes (2 points)
   _____ Kind of (1 point)
   _____ No (0 points)

3. Does your portfolio consist of only stocks, bonds, and/or mutual funds?
   _____ Yes (1 point)
   _____ No (0 points)

4. When was the last time your advisor reviewed your tax return?
   _____ Never (2 points)
   _____ Years ago (1 point)
   _____ Within the last 12 months (0 points)

5. Does your successor trustee know where to find your beneficiary designation forms?
   _____ Yes (0 points)
   _____ No (1 point)

6. Is the ultimate beneficiary of your IRA a trust?
   _____ Yes (1 point)
   _____ I don't know (1 point)
   _____ No (0 points)

7. Are you worried about your family's financial well-being in the future?
   _____ Yes (1 point)
   _____ No (0 points)

8. Do you have a reliable income plan for retirement that guarantees you will not run out of money?
   _____ Yes, I take 3% to 5% out every year (1 point)
   _____ Yes, I have an income plan I cannot outlive (0 points)
   _____ No, I don't (1 point)

9. If you died tomorrow, would your spouse have to live on a lower income amount?
   _____ Yes (1 point)
   _____ No (0 points)
   _____ Unsure (2 points)

10. Do you have a diversified strategy to protect you from inflation?
   _____ Yes (0 points)
   _____ No (1 point)

11. Do you have investment losses you haven't used up on your tax return?
   _____ Yes (1 point)
   _____ No (0 points)

12. Are you currently paying a management fee on a portfolio of mutual funds?
   _____ Yes (1 point)
   _____ No (0 points)

13. Does your IRA include a variable annuity?
   _____ Yes (1 point)
   _____ No (0 points)

14. Is your advisor a recognized specialist in retirement accounts like IRAs, TSPs and 401(k)s?
   _____ Yes (0 points)
   _____ No (1 point)

15. Do you know the difference between A, B and C share mutual funds?
    _____ Yes (0 points)
    _____ No (1 point)

16. Are your retirement accounts set up to be a pension for your family?
    _____ Yes (0 points)
    _____ No (2 points)
    _____ Unsure (1 point)

17. Are your kids' names on your bank accounts, brokerage accounts or property deeds?
    _____ Yes (1 point)
    _____ No (0 points)

18. Do you own bonds or bond funds?
    _____ Yes (1 point)
    _____ No (0 points)

19. Is your advisor a frequent contributor to the national financial media? (FOX Business, CNBC *The Wall Street Journal,* etc.)
    _____ Yes (0 points)
    _____ No (1 point)

20. Have you seen, in person, your financial advisor in the last 12 months?
    _____ Yes (0 points)
    _____ No (2 points)
    _____ I handle my investments (2 points)

Total Score _____

HOW DID YOU SCORE?

If you scored 10 or more points, you are almost certainly facing some form of significant financial problems, and you would likely benefit greatly from a second opinion from a qualified advice-giver.

If you scored 3 to 10 points, you may potentially be at risk for problems that could affect your income, your retirement security or your family wealth transfer goals. It may be wise, at this point, to seek a second opinion from a qualified advice-giver to help ensure that problems don't arise in the future.

If you scored less than 3 points, you are likely not exposed to severe planning mistakes that can have significant financial impact on you, your spouse and ultimately your family. Congratulations!

Chapter 1

BORN FREE, TAXED TO DEATH

"I'm putting all my money into taxes – the only thing sure to go up."

– Henny Youngman

To many retirees and aspiring retirees, "TAXES" is a four-letter word, and I understand why. You come into life paying taxes, and you certainly leave this world with a large tax bill. I believe this is all by design. The tax code is complex and difficult for a reason – to make it difficult for you and me! It seems like there are actually two different tax codes in the United States: one for the informed and one for the uninformed.

Who do you think pays more in taxes, the informed or the uninformed?

Ever heard the saying, "It's not about how much you earn, but how much you keep after taxes?" This couldn't be a more accurate statement, especially for retirees and their beneficiaries. This is one thing the ultra-wealthy do really well: They take advantage of the tax laws for the informed. How, you wonder? They have the right team (more on this in a later chapter).

I know you're probably thinking to yourself, "I use tax-prep software," or "I hired a fancy accountant," or "I'm a former IRS agent," or "I'm using all the latest tax-saving strategies." Are you? I can tell you with virtual certainty that you're probably paying more in taxes than you're obligated to.

I meet with prospective clients every week, and it's a rare occurrence that I can't find some way to put more money back in their pockets by lowering their tax bills. Look, millions of Americans are literally depending on you NOT to take advantage of the tax code for the informed!

Do you want to turn the tables on the government (legally and ethically, of course) and pay less taxes?

First, I think it's important to set the foundation for:

- Why taxes are set to skyrocket from where they are currently
- How massive tax rates will affect you
- And, most importantly, how to take advantage of the tax laws for the informed and pay the least amount in taxes now and in the future

Are you ready?

THE "GREAT WALL" OF DEBT

For most Americans, the income tax, capital gains tax, dividend tax, estate tax, FICA tax, Social Security income tax, sales tax, property tax, and tax on interest income (just to name a few) have almost always been part of everyday American life. It's almost as American as well… apple pie. OK, bad example.

But it hasn't always been this way. We haven't always been born free and taxed to death.

It was Feb. 3, 1913 when everything changed. The 16th amendment to the U.S. Constitution was ratified, giving Congress the power to tax personal income. At the time, less than 2% of the population had to pay income tax. But as we now know, this single ripple charted the course for decades of massive tax hikes and entitlement programs, and ultimately laid the foundation for a colossal amount of national debt that has never before been witnessed in our country's history – or the world's, for that matter.

In the informal public polls I've conducted over the last several years, there's an overwhelming common understanding that tax rates will go up, but why? Some point to Washington-style earmarks, some to the numerous entitlement programs like welfare and Social Security, while others point to the exploding national debt brought on by massive bailout and spending programs. The truth is that it's all of the reasons above, plus more.

About one-third of our country's spending will be used to pay the interest on our debt – not the principal – to our creditors! According to the Federal Reserve, over 50% of our national debt is owed to foreign nations, mostly China and Japan. Let that sink in for a moment.

The chart on the next page depicts the major components of federal spending. While defense accounts for 20% of all federal spending, Social Security and Medicare/Medicaid (all of which are entitlement programs) account for 40% of all federal spending.

The Social Security Administration (SSA) states that in 2010 it began operating at negative cash flow (paying out more in benefits than it takes in). Our national spending spree problem is exacerbated when we take a peek into the future. By the year 2040, Social Security, Medicare/Medicaid will account for 52% of all spending, while 30% will be attributed to the interest on our national debt.

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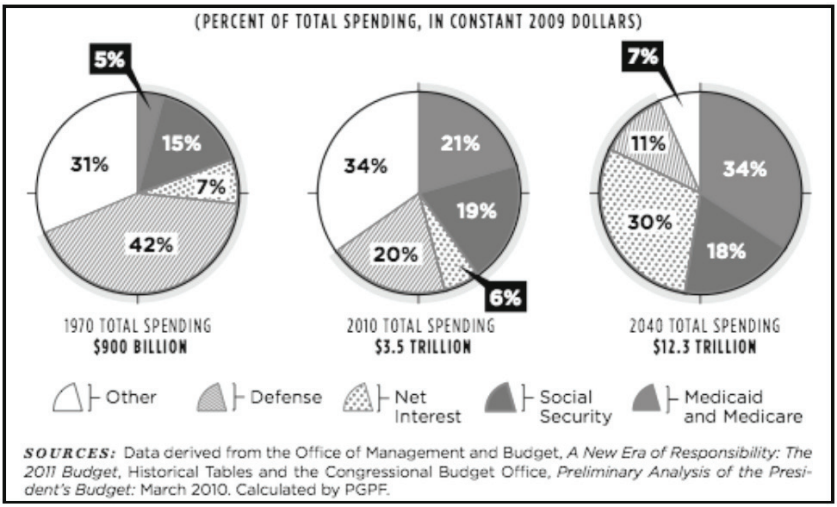


I think you'll agree that the government has a spending problem comparable to a lottery winner with a nasty drug addiction. This is one habit that "we the people" need to encourage the government to kick before it overdoses.

Federal spending, however, is only part of the problem. The serious nature of the issue can be illustrated by a simple formula I devised:

ROBERT'S RULE

R – S = D

Revenue minus **S**pending

equals **D**ebt (accumulation)/surplus

To put it into perspective, current federal tax revenue is $2,168,454,559,411, and U.S federal spending is $3,480,644,561,058. Let's plug this information into my handy-dandy formula, R – S = D:

$2,168,454,559,411 minus $3,480,644,561,058
equals ($1,312,190,001,647)

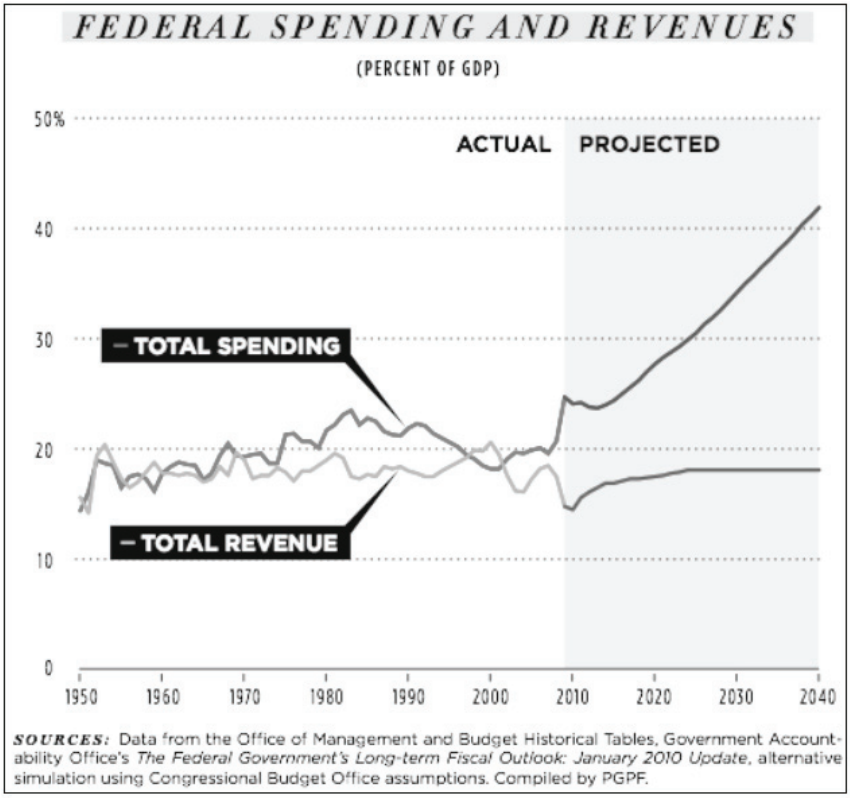
This is so simple a fourth-grader can comprehend it, but for some reason it's difficult for a politician. The beauty is that this formula, like gravity, is undeniable and applies to our everyday lives. If you spend more than you collect,

While it's easy to talk about trillions and trillions of dollars of debt, it's very difficult to conceptualize how much $1 trillion really is. To put it into perspective, if you spent $1 million each day, it would take you 2,700 years to spend $1 trillion.

you accumulate debt. And the opposite is true. If you spend less than you collect, you cut debt – or even better, create a surplus.

So, using the formula above, we are running a deficit and growing our national debt by over $1.3 trillion a year, a record-breaking pace. You can see on the next page how dramatic the gap is between spending and tax revenues.

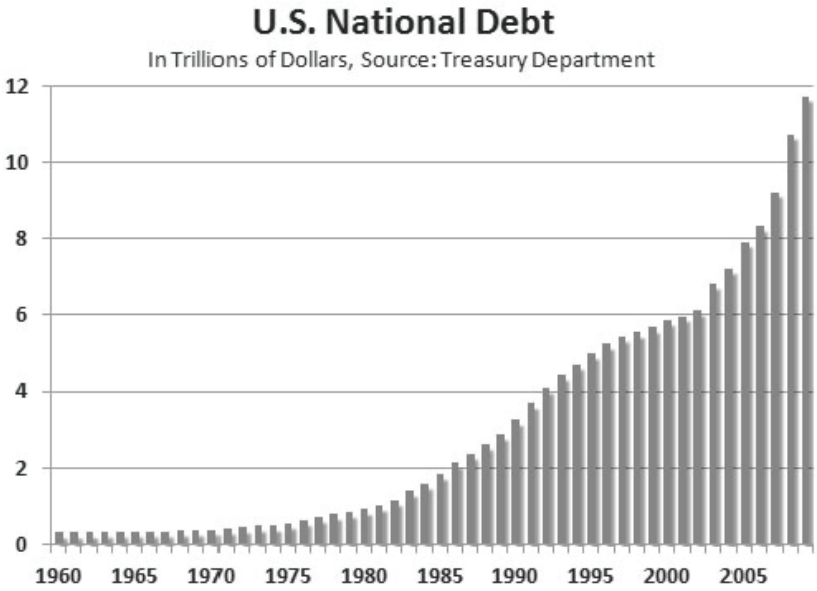
Because the government is and has been spending more than it receives in tax revenue, we've been tallying up quite a bar tab. While it's easy to talk about trillions



and trillions of dollars of debt, it's very difficult to conceptualize how much $1 trillion really is. To put it into perspective, if you spent $1 million each day, it would take 2,700 years to spend $1 trillion.

The question I'm hoping you've formed in your mind is, "Why not raise taxes and cut spending to solve the problem?" Good question, young grasshopper! Unfortunately, the accumulated debt is too large and the entitlement promises too great to make a significant dent in our "great wall" of debt.

At the time this book was authored, the national debt was over $15 trillion and, according to USDebtClock.org, the unfunded liabilities (current and future promises) of



Social Security and Medicare/Medicaid are a staggering $112 trillion. How much does the government have put away to keep its promises?

Zero.

What will the government do? The non-partisan Peter G. Peterson Foundation answers this question more eloquently than I could:

> *"It's much easier to expand government programs and provide tax cuts, reap the short-term political benefits, and then let future politicians – and citizens – deal with the consequences."*

Social Security is a perfect example of a program that has been pillaged by politicians since its inception in 1935. According to the CBO (Congressional Budget Office), Social Security is already running a $45 billion deficit, five years earlier than anticipated. This means that Social Security is

paying more out in benefits than it collects in tax revenue. Furthermore, the Social Security Administration recently found that Social Security "trust funds" will be completely exhausted by 2033. Could this shortfall affect your retirement? Possibly. Could this shortfall affect your grandchildren's retirement? I think the answer is obvious.

The overwhelming conclusion is the U.S. cannot keep entitlement promises and lower tax rates. The perfect storm is brewing right above Washington, D.C. In the not so distant future there will be a great divide between the "haves" and the "have nots" – in essence, a new Civil War. In other words, there will be a great divide between those who saved for retirement and accumulated family wealth, and those who are dependent on the federal government.

To put it bluntly, the dam is about to break. Do you want your family and future generations to be caught in the flood?

Politicians will keep spending your money and use the spending spree as a springboard to raise taxes as the only solution to the debt problem. That's why you'll need to be ahead of the curve by taking advantage of the tax laws for the informed, and this book will be your guide.

THERE'S ALWAYS A SILVER LINING

The stage has been set for skyrocketing tax rates, but the silver lining is they haven't skyrocketed yet. Tax rates are still relatively low, so now is the time to do some smart tax planning and take advantage of the tax laws for the informed.

In 2011 and 2012 tax rates remained low because of the Obama administration extending the original tax cuts put into place in 2001 and 2003 during the Bush administration. Following is a breakdown of tax rates as they stand now:

2011/2012 FEDERAL TAX BRACKETS	
Tax Bracket	**Married Filing Jointly**
10% Bracket	$0 - $16,750
15% Bracket	$16,750 - $68,000
25% Bracket	$68,000 - $137,300
28% Bracket	$137,300 - $209,250
33% Bracket	$209,250 - $373,650
35% Bracket	$373,650+

From my experience, the majority of retired couples fall within the 15% or 25% tax brackets, meaning they make somewhere between $35,000 and $135,000 per year. Keep this point in mind as you witness what will take place in 2013 when the Bush-era tax cuts are automatically repealed.

At the top of the next page is a breakdown of the new tax rates for 2013 and beyond. Where did the 10% and 25% brackets go? I thought the Bush tax cuts were for the wealthy! They were. And they were for everyone else,

2013 AND BEYOND FEDERAL TAX BRACKETS	
Tax Bracket	**Married Filing Jointly**
15% Bracket	$0 - $43,850
28% Bracket	$43,850 - $105,950
31% Bracket	$105,950 - $161,450
36% Bracket	$161,450 - $288,350
39.6% Bracket	$288,350+

too, especially middle-income earners. The 10% and 25% brackets disappear in 2013, and the other tax brackets get compressed.

Now let's look below at a side-by-side comparison of current tax rates vs. tax increases in 2013:

FEDERAL TAX BRACKETS NOW vs. 2013 AND BEYOND			
Rate	**2011-1012**	**Rate**	**2013 and Beyond**
10%	$0 - $16,750	NA	No 10% Bracket
15%	$16,750 - $68,000	15%	$0 - $43,850
25%	$68,000 - $137,300	28%	$43,850 - $105,950
28%	$137,300 - $209,250	31%	$105,950 - $161,450
33%	$209,250 - $373,650	36%	$161,450 - $288,350
35%	$373,650+	39.6%	$288,350+

Wow! I bet our founding fathers are rolling over in their graves! I can imagine George Washington saying, "We left England for this?"

What does this mean to the average retired couple who make somewhere between $35,000 and $135,000 per year? They're forced to give the government a raise – and a hefty raise at that!

Retired couples who are currently in the 15% bracket (making $44,000 or more) will in effect see a doubling of their tax rate, from 15% to 28%. And those retired couples who are currently in the 25% bracket (making $68,000 or more) will see their tax rate increase by 24%.

Hopefully I've coached you well enough early on in this book to recognize that smart, informed retirees can pay less in taxes than those above.

There are really two ways to take advantage of the tax laws for the informed, now and in the future. Read on.