# Retirement Traps

## #4: The Death Trap

Have you ever heard the old English adages "Death either comes too early or too late" or "Death pays all debts"? Death will happen to us all. Deaths fall into one of only two categories, expected and unexpected. We have all most likely experienced both at some point in our life. The phone rings and the unwanted news that someone has been in an accident or we sit by the bed of an elder loved one whose time has finally arrived. Have you considered what would happen to your family when one of these circumstances occurs to you? Have you made the proper decisions to insure their comfort?

When most people sit down with their advisor they have a vision of their retirement that usually includes traveling, golf courses and visiting the grandkids. This image extends them decades into the future. It does not drop them into tomorrow, next month or even next year. I know society sees it as morbid to discuss but is it prudent not to?

Don't be part of the masses that make this common and critical financial error. This error occurs in one of two ways. First, because the individual does not have the benefit of time, their money does not have the power of compound interest, leaving only a percentage of the final nest egg. What if that comes to an end tomorrow? There would hardly be enough for a family's needs.

Hopefully, you will be part of the majority of the population who get to enjoy a long, fulfilled life and if you have saved diligently in a tax-qualified retirement plan then you should have the money for all the spoils deserved in your golden years. The problem is that after all those years of saving you don't know how to be a spender. Another obstacle is that retirees also know that this money must last them the rest of their entire lifetime; a timeline that is difficult, at best, to quantify. Both of the last two sentences describe why most accounts still have money when the owner dies and often a healthy sum.

Tax qualified plans get treated differently depending on if the account is passing to a spouse or not. However once the remaining living spouse perishes the same fate for the account holds true at that new point in time so there is truly no escape as long as the money is in a tax qualified account. Let me explain. We all know that we pay taxes based on a tax bracket that is determined by the income that we have made in a certain calendar year. Now understand that we are talking about someone's life savings so it does not take much to have an account with 150K, 250K or even 350K left at the participant's death. At 2012's tax rate for 350K, Uncle Sam would take a $122,500 hit and the state would take their share too. There are also other possible taxes due depending on the participant's disposition.

Will you enjoy saving all your life to know that half or more will simply go to the government? If you have money in a tax qualified plan than you must be ok with this fact or maybe you would like to be shown a way that you can give your money to anyone or anything completely income-tax free. An account you control, lets you utilize your money any time you want or leave it indefinitely, allows you to direct the full balance upon your death, and if done properly, you pay nothing in income-tax.