JIM LINEWEAVER, CFP®
Ohio's Financial Quarterback™

· YOUR · RETIREMENT PLAYBOOK

OHIO'S GUIDE TO PLANNING A SUCCESSFUL RETIREMENT

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YOUR RETIREMENT PLAYBOOK
Ohio's Guide To Planning A Successful Retirement

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DEDICATION

This book is meant to be a thank-you to the caring and professional Ohio police, fire departments, teachers, and other city employees who keep our communities safe and our families well.

Our goal was simple: provide you with valuable financial information in easy-to-understand language that you can use to improve the quality of life for you and your loved ones, now and throughout your retirement.

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A special thank-you goes out to my wonderful wife, Kathy, and our three children: Tori, Tyler, and Delaney, who keep me grounded and focused on what's most important in life. They are my inspiration and provide me with my drive and determination to always be the best that I can be.

To longtime friends Dave Scranton, who encouraged me to write this book, and Matt Crisci who is a prolific writer of 12 of his own books who helped me transition this book into something that we hope will be enjoyable for you to read.

To Geoff Powers, my marketing director, Charlene Niederhelman, my office manager, and Hugo Souza, one of my advisors who is my boots on the ground for the 36 cities that we handle the deferred compensation plans for throughout Northeast Ohio. They have helped me do some of the heavy lifting for the book and have worked painstakingly to make sure the book was up to date at the time of publishing and that we met all the compliance requirements for this type of publication.

To all of my wonderful teammates at Lineweaver Financial Group, Lineweaver Wealth Advisors, and LFG Tax Services, who are the backbone behind our organization and the real reason why Lineweaver Wealth Advisors has grown to become one of the Top 25 Registered Investment Advisors in 2019 according to *Crain's Cleveland Business*, and we have expanded to 26 states.

Finally, and not least importantly, I'd like to thank the hundreds of Ohio families who have put their faith and trust in the Lineweaver Financial Group for more than 27 years.

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INTRODUCTION

When it comes to the future, there are three types of people:
those who let it happen, those who make it happen,
and those who wonder what happened.[1]
—John Martin Richardson Jr.

Retirement is your future. So your goal should be to create a worry-free retirement for yourself and your family; a retirement that lets you live out all your hopes, dreams, and wishes, without reservation and without compromise.

Setting Goals To Win In Retirement

Winning in retirement takes some work; you need to remain alert to a constantly shifting playing field. Investments are no longer as secure as they once were; pension plans are rapidly evolving (and rarely in your favor), while accumulated assets require seamless coordination to minimize unnecessary taxes and maximize your retirement income. To put it simply, the best retirement plans require a smart offense and solid defense.

During the last 27 years, I've seen too many people lose their way, enticed by promises of silver bullets and the availability of mountains of free, do-it-yourself information. As most hardworking Midwesterners realize, *there is no such thing as a free lunch*! If you want to be

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comfortable in retirement, you need to be one of those people who make it happen.

While I wrote this book with Ohio state public employees and the Buckeye State's laws and regulations in mind, I also made sure to fill this book with practical, easy-to-understand advice that can help every family, everywhere, develop a retirement plan today, right now.

Professionals On Demand

Before we begin our journey into your retirement, I'd like to offer every reader one important piece of advice. Make sure all of the professionals involved with your money—CPAs, lawyers, investment professionals, and insurance agents—know your goals and where they fit into your overall plan. What I've found over the years is that most people have what I call "professionals on-demand." A lawyer they used once for a will; an accountant who does a great job completing your tax return but offers little, if any, strategic tax planning advice. You might even have an insurance agent whom you've consulted with from time to time for life insurance or annuities.

Having a Financial Quarterback can help create the opportunity for a winning retirement plan. When it comes to a Financial Quarterback, you have two options: Become your own Financial Quarterback to coordinate your financial affairs yourself, or else find an experienced Financial Quarterback you can trust to coordinate for you. Because you'll be making some important decisions that will affect your life for years to come, personal chemistry is important. To demonstrate the importance of financial coordination, I offer a few real-life examples.

Case #1: The Investment Withdrawal

Let's assume you decide to withdraw money from an investment, maybe as a gift for your children, to pay for a vacation, or to take advantage of a "hot" stock tip. Before you withdraw, you had better have

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the answers to these four questions, because a misstep can cost you *thousands* in lost assets.

1. Will you have to report the investment change as taxable income?
2. Will this withdrawal push you into a higher tax bracket?
3. Will the receipt of that income trigger taxation on your Social Security?
4. Will it increase your Medicare premiums?

Case #2: IRA Versus Mutual Fund

You decided to take some money out of your IRAs to help cover monthly living expenses, while reinvesting the dividends and capital gains from your non-IRA mutual funds to replace the withdrawals in your portfolio. Do you know the answer to these questions before making that decision?

1. Are you creating an unnecessary tax liability by taking money out of your IRAs instead of using the taxable distributions from your mutual funds to help pay the bills?
2. Have you quantified the difference in tax liabilities?

Case #3: Unimaginable Circumstances

One of my clients faced the unimaginable: her husband was diagnosed with terminal cancer. Under our stewardship, he agreed to make the tough decision to retire early.

Here's why:

1. We were able to trigger a 100 percent pension survivorship option for his wife, netting her a greater lifetime benefit, almost one million dollars more than she otherwise would

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have received. If he had passed away before officially retiring, she would have only received the default option of 50 percent.

2. The client had signed for numerous student loans for his children. We recommended the loans stay in his name. After he passed, those student loans had a forgiveness clause and approximately $140,000 of debt was forgiven.
3. However, this forgiveness of debt can be a taxable event under certain circumstances, which could have caused an approximately $40,000 tax liability. By coordinating the client's professionals, his estate was structured so that the surviving spouse did not have to pay taxes on the forgiveness of that debt.

Each individual's circumstances are unique. Past performance is not an indication of future results.

Where To Start?

When I meet people planning for retirement for the first time, many ask, "Can I be my own Financial Quarterback?" My answer is always the same: "sure you can." Then I give them my pop quiz.

1. Are all the members of your team talking to each other?
2. Have you taken the time to research the many financial advisors out there and the myriad of financial products available to determine which ones are best for your particular situation?
3. Do you have the time to accurately monitor the stock markets?
4. Do you have access to proprietary models and research that can help you make decisions?
5. Are you staying current on tax law changes and how you can use them to your advantage?
6. Are all your legal documents up-to-date and written with the right clauses for your family dynamics?

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7. Are you emotionally prepared to get kicked in the shins a few times? Younger people can weather these blows, but as you get older, you may not recover as quickly or as easily.
8. If you make a costly financial mistake, how long will it take you to bounce back? Will you be back in the game next week, or will you be struggling to recover long after you had planned to retire?

Thanks again for taking the time to read my book. I have tried to do everything possible to make it informative and entertaining. My goal is to give you advice you can use today as well as tomorrow.

Jim Lineweaver

Nothing provided herein constitutes tax advice. Individuals should seek the advice of their own tax advisor for specific information regarding tax consequences of investments.

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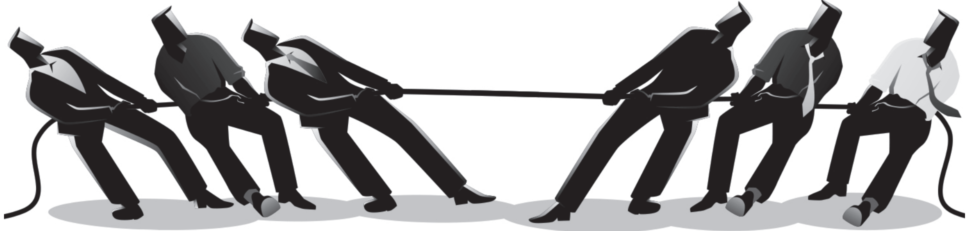
SECTION 1



PENSION TENSION

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1

THE MATH DOESN'T WORK

The U.S. stock markets have advanced considerably over the past decade. By most common measures, we have seen an overall increase of 200 to 250 percent since mid-2009 through 2019. The increase is well above the 7 to 8 percent annual increase expected based on historical averages.

However, most experts would agree that the probability of this strong uptrend continuing for another eight years or more is extremely low. They also agree that the stock market roller coaster will remain alive and well for the foreseeable future, even when the Dow Jones Industrial Average dropped over 5,000 points, or 11.8 percent, in two and a half months (between October 3, 2018, and December 17, 2018).[2] A little over 4,000 of those points were gained back by the end of February 2019, making for an unusually severe five months. Then, the advent of COVID-19 lead to record volatility in the first quarter of 2020.

With so much uncertainty in the world, some degree of volatility is expected to continue. It's reasonable to think that after the markets have gone through a strong investment growth period—that is to say, a long period of rising asset values—both public and private pensions would be on a firmer footing, but that's not necessarily the case. Individuals

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counting on their pensions certainly need to understand the inner workings of their plan. Will this plan be healthy enough on its own, able to cover any liabilities that come up and to provide the promised payout that individuals are relying on for their future?

That has always been the objective of a pension, whether public or private. However, in many cases, promised future payouts are underfunded. The plan's overall assets are decreasing while the number of retirees receiving payments is increasing and, thanks to medical science, those retirees are living longer than ever. This math clearly doesn't work, and it's the reason why so many pension funds are in deep trouble.

Bond Rating Agencies – Standard & Poor's And Fitch	
Investment Grade	
AAA	**The best quality companies, reliable and stable**
AA	**Quality companies, a bit higher risk than AAA**
A	**Economic situation can affect finance**
BBB	**Medium-class companies, which are satisfactory at the moment**
Non-Investment Grade	
BB	**More prone to changes in the economy**
B	**Financial situation varies noticeably**
CCC	**Currently vulnerable and dependent on favorable economic conditions to meet its commitments**
CC	**Highly vulnerable, very speculative bonds**
C	**Highly vulnerable, perhaps in bankruptcy or in arrears but still continuing to pay out on obligations**
D	**Has defaulted on obligations and Fitch believes that it will generally default on most or all obligations**
NR	**Not publicly rated**

Table A

Are Public Pensions In Trouble?

Moody's Investor Service[3] is an independent credit rating agency that, along with Standard & Poor's and Fitch, ranks and assigns default risk ratings to municipalities and corporations.

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According to PEW research in their 2017 analysis, "The Pension funding gap of $1.28 trillion was only slightly lower than the reported $1.35 trillion from the previous year, making it the second reported decrease since the recession as the states total liabilities pass $4 trillion."[4]

The problem with many pension plans is that their contractual obligations and their liabilities are dreadfully underfunded. In order to meet their obligations and pension payouts down the road, additional money will have to come from someplace else. One auxiliary source could be pulling from the institution's revenue. This is the case in many city governments, where taxes are being used to cover the shortfall.

Another unfortunate method that pension providers are utilizing to fix their pension troubles is by reducing the benefits to those receiving pensions. In some cases, local governments have passed legislation to shore up their funding problems by issuing bonds; in others, they have even included increasing direct employee contributions as part of the solution.

But not all solutions include injections of cash from corporate profits (public sector), taxes, or current employee contributions. In 2014, the Multiemployer Pension Reform Act (MPRA)[5] was passed and allowed troubled pensions to reduce the benefits of current retirees if it was found to benefit the pension fund's overall financial health. Previously, it was unheard of to lower the amount of a retiree's pension, but this law changes that. Unfortunately for many groups of pensioners, parts of this law have already been implemented.

For example, a private pension fund serving the one iron workers' union[6] in Cleveland, Ohio, made history as the first to take advantage of this new legislation. The fund administrators evaluated all of their options, and even though the pension was still years away from insolvency, they opted to take drastic action. On February 1, 2017, the average pension benefit was cut by 20 percent. Some retirees had their monthly payment reduced by as much as 60 percent. For some, payouts were slashed by as much as $2,000 per month.

A *decrease* in income was obviously never the promise of any defined benefit plan, and as a result many former iron workers in the Cleveland area are now struggling to balance their household budgets.

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A Vicious Cycle

For others, however, it's clear that it's better to receive less money after cutbacks than to receive nothing at all if the pension fund either runs out of money or "chokes" the company funding it.

In early 2017 at Sears and Kmart, retirees were made aware of how their situation may change in the future. Sears Holdings[7] has teetered on the brink of financial collapse for over a decade. Over the past 12 years, Sears has contributed nearly $4 billion to keep its pension plan solvent. Theirs is a legacy plan only and it does not cover current workers. The company listed its pension obligations at $5.2 billion, while the market value of the plan only totals $3.6 billion.

While Sears considers adding more funding for the plan, they are also considering whether they will be able to afford to fill store shelves; using capital to bolster the retirement plan takes from the ability to purchase inventory. And empty shelves may reduce future profits, which later will affect the ability to fund the pension liability shortfall.

It's a vicious cycle. On the one hand, an injection of cash into the pension fund allows the company to maintain the promised benefits, for at least a little while. However, if they affect future profits too drastically, the entire 125-year-old company could go under, and then nobody would get paid.

If you were an executive at Sears, what would you do? Or which would you prefer if you were a retiree collecting a Sears pension? Would you prefer a cutback in benefits, to keep the provider of the benefits healthier overall, or would you instead prefer the short-term cash injection, an injection that could ultimately put Sears out of business forever? These are tough questions that are being asked all across the country.

As you'll discover in Chapter 2, no one should expect Ohio's public employee pensions to ask their participants to vote on anything as drastic as the plan undertaken by the Cleveland Iron workers. It's my hope that the other public employee pension funds in Ohio and throughout the country will avoid this path entirely.

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It's Time To Wake Up!

This is an issue that everyone relying on a pension needs to be aware of. Don't be a passive observer here!

In football, if the scoreboard shows you are ahead by only a slim margin and you haven't been able to gain any yardage, it's time for you to take a more strategic offensive approach. If you want to win, you can't just rely on the defense to do the work for you.

Fortunately, many of the strategies that the affluent use to stay ahead in the retirement game are available to everyone, even those in more modest households. Later in this section, we'll show you how to lay the groundwork for success by implementing these wealth management strategies.

One division of my company caters to actively managing 457 Deferred Compensation Plans[8] for public service employees and coordinating their pensions, insurances, and investments to get these clients ready for retirement. This idea grew from the personal knowledge I obtained by participating in many of these programs myself, and by working as a police officer to pay for my college education. However, the majority of my practice over the last 27 years has catered to executives, business owners, and the many affluent families throughout Ohio and 25 other states that rely on Lineweaver Financial to quarterback all their financial, taxation, legal, and insurance issues for a successful retirement.

I was prompted to write this book when I realized that many of the strategies utilized by the wealthy are not being taken advantage of by those who could benefit from them the most. In the coming pages, I'll demonstrate how you should use your options, and maybe even introduce you to some "big league" strategies you didn't know existed.

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Pensions Are Evolving (And *Not* In Your Favor)

Back in 1875, when American Express[9] helped create the first employer pension plan in the U.S., the goal was simple—financial security and "peace of mind" for their workers. It was quite common in those days

for an employee to accept a job in their late teens or early 20s and then spend the rest of their working years with that company. The pension was intended as a paternal act, a way that companies could foster loyalty, increase productivity, and attract quality lifelong employees.

This type of loyalty has been fading for decades. According to LinkedIn,[10] a popular business networking website, college graduates are now expected to change positions and even careers 2.85 times in the first 10 years after graduation. LinkedIn looked up similar statistics for college graduates from 1986 to 1990 and found they made just 1.6 job changes. The reason for this increase goes beyond the stereotype of restless grads looking to find their place and move up the ranks quickly; career changes are also driven by an increase in companies who treat employees as if their presence were temporary.

Pensions especially have undergone their own changes in the past three decades, in response to financial market turmoil. This turmoil has led to stock market crashes and low interest rates as well as an overall reduction in loyalty from both employees and employers. Huge price swings in certain investment markets have, at times, erased 40 percent or more of investor value; consequently, predetermined retirement benefits became risky for companies. Many employers have stopped offering defined benefit pensions, often replacing them with 401(k)s, 403(b)s,[11] and 457 plans. This gave employees more flexibility in the short term, but virtually eliminated any certainty of what they would actually receive when they stopped working. We'll talk more about these plans in the coming sections.

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Are Government Pensions Safe?

Pensions promised to municipal and state employees are being put to the test in different ways. The risks to pensioners aren't much different, but the solutions being kicked around by city governments involve elected officials, taxpayers, and employees who have been counting on their retirement plan. The solutions also involve the many bondholders who have lent money to the municipality. This is one of the biggest

issues affecting city governments across the country, but rather than look who to blame for the problem, it would surely be more useful to frame the problem and identify the various solutions being considered.

In Dallas, Texas, Mayor Mike Rawlings[12] declared that his city is "walking into the fan blades" of municipal bankruptcy. The big problem he refers to is a request by the managers of a pension fund of uniformed officers for $1.35 billion, in hopes of pushing disaster just a little further out into the future.

Dallas is not the only city trying to avoid the "fan blades." Rawlings's graphic observation is true of most city, county, and even state governments across the United States. At some point in the near future, they all must deal with the reality that the breeze they currently feel will eventually be followed by a sudden, severe storm unless they change their course. There is no longer a question of whether a new direction is needed; it's now a question of which restrictive or expensive recipe will feed everyone who needs it.

We believe going forward, the only certain outcome is that state and municipal employees will all feel the pinch. It may be in the form of lower pension payments, higher taxes, or working longer. For many, it will be a combination of all three. While waiting for the specifics of the inevitable to become clear, future retirees should take the initiative to solidify their own finances. We can no longer rely on the old team who used to watch out for employee finances. Workers should position themselves to win, no matter what happens. This takes a little repositioning, but it's absolutely critical.

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Unfunded Public Pensions Are Everywhere

A report published by the Hoover Institution in May 2017 titled *Hidden Debt, Hidden Deficits: How Pension Promises Are Consuming State and Local Budgets*[13] found that unfunded liabilities of state and local pensions are still growing. The report determined the value of pension liabilities for 649 state and local pension funds across the country. When the analysts focused only on already-earned, guaranteed benefits, the

accrued unfunded liabilities were $3.846 trillion. This number is 2.8 times larger than the values reflected in government disclosures.

The report also found that the vast majority of local governments are still relying on investment return assumptions of 7 to 8 percent. Actual investment earnings are usually closer to 2.5 percent. The Hoover Institution[14] demonstrated that in the aggregate, the situation is deteriorating as total government employer contributions to pensions were $111 billion, almost 5 percent of revenue; the actual amount necessary to keep the problem from worsening is $289 billion, or 12.7 percent of revenue. The prospect of investment returns moving back to historical norms or worse as pension liabilities grow will call for real solutions, not just financial Band-Aids or sleight of hand.

SUMMARY: Chapter 1

- Few, if any, pensions are currently on a firm footing. Plan assets are significantly lower than longer-term liabilities and are thus unsustainable under current conditions.
- The method of calculating estimated pension investment returns is flawed; actual returns are consistently much lower.
- Mismatch of investment returns versus pension outflows may be reconciled by reducing non-cash benefits.
- Many financial management strategies that are used by the affluent are available to more modest households.
- Municipal (and all state) employees may experience lower payments, higher taxes, or a longer working career.

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