# 55 Legal Loopholes *for* Boosting Your Retirement


BANYAN HILL

# 55 Legal Loopholes for Boosting Your Retirement

**By Ted Bauman, Editor of *The Bauman Letter***

AT first glance, planning for retirement might seem to have little to do with sports, especially a bruising game like football. But bear with us for a moment while we ponder the outcome of Super Bowl 50 at the end of the 2015 to 2016 season…

One team, the Carolina Panthers, was led by young Heisman Trophy-winning quarterback Cam Newton. It's no surprise the Panthers had the top-ranked offense in the league when it comes to total points scored per game.

On the other side of the field were the Denver Broncos, led by aging veteran quarterback Peyton Manning and a team with so-so offensive figures for the season. During the big game, it showed. In four quarters of football, the Broncos were unable to score a single touchdown pass, with fewer yards gained in passing and rushing than the Panthers.

Yet the Broncos proceeded to soundly defeat their opponent, 24 to 10. How?

Ultimately, it was all about playing great *defense.*

It was the Broncos' defensive squad that scored the team's first actual touchdown, on a fumble, and blunted nearly every effort by their opponents to move the ball down the field.

What's the point? When it comes to retirement, you should be investing in a strong defense, too.

We're not talking about picking stocks that go up while others go down, or trying to time when to put money into the stock market. We're talking about the fundamentals of "blocking and tackling." The combination of solid investment planning, slashing your health care costs and defending against the best offence in the world … the U.S. Internal Revenue Service (IRS).

Sound impossible? It's not. It's your blueprint for a strong-defense retirement, and it's what we're going to talk about in the coming pages of this report.

Let's get right to it, then!

## INVESTMENTS

## 7 Secrets to Doubling Your Retirement Gains (Before You Buy a Single Stock)

The single most important goal, the philosophy behind every serious retiree, is to set up a situation where your investments grow regardless of what is going on in the stock market.

Now, you might say, "Yeah, that's great." Who wouldn't want to have investments that grow like that?

You don't need to go completely passive and buy just index funds (although there is an argument for that approach). And yes, you can still look for and hold "star" investments in your portfolio — the "statistical outliers" that you believe are destined to post big gains.

But the way to absolutely ensure your retirement accounts will literally double — then double again — is through a concept we call "compounding."

When you put $1,000 at risk in an investment, the expectation is that in a handful of years it will become $2,000. Otherwise, why invest? Over time, those accumulated profits should grow even further, or roll over into other investments that will also increase in value.

That's compounding — a big word for the activity of accumulating profits and dividends from your investing activities over the course of time. But for compounding to truly work its magic in your portfolio, you have to make sure much of those potential gains aren't frittered away by having a lousy fundamental defense.

As a result of the compounding effect — and the fundamental defensive strategies we'll tell you about in a moment — your portfolio can see markedly higher performance over time.

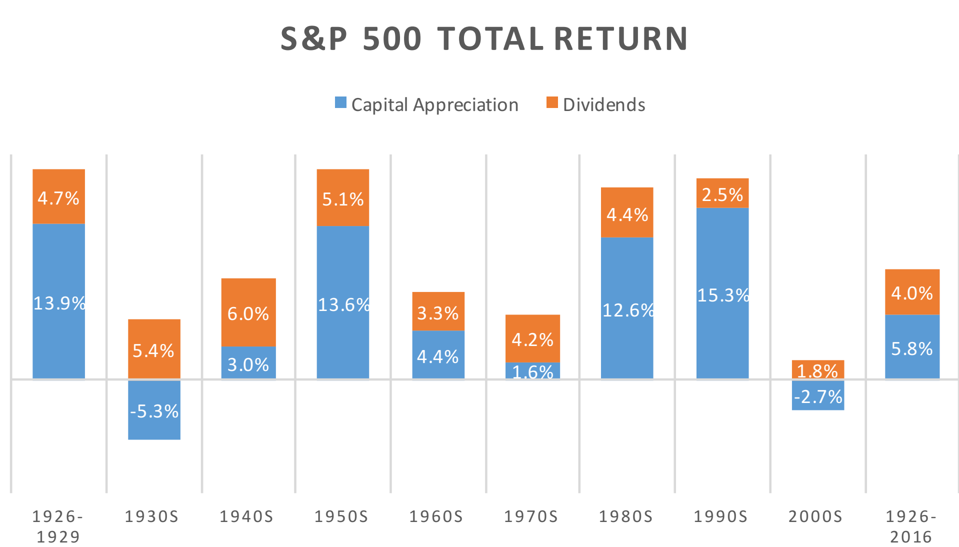
## Understanding the Power of Total Return

Stock market appreciation — buying a stock at $20 and watching it go higher over time — is the lion's share of those gains, maybe half or more. But dividends — the excess cash that well-run companies often send back to you, the shareholder, which you then reinvest back into the stock — usually account for at least 50% of what's called "total return."

The world's first billionaire, John D. Rockefeller, the founder of Standard Oil and a man worth five times more than Warren Buffett and Bill Gates in today's dollars, had a simple secret for making money: reinvested dividends.

He once said: "Do you know the only thing that gives me pleasure? It's to see my dividends coming in."

Dividends are quarterly cash payments you get from companies you hold in your investing portfolio. They are a very big deal, particularly if you reinvest them steadily over time, because they provide a huge boost to your compounding, allowing you to ultimately be a big winner in the game of investing.




Dividend payments over long periods are a solid contributor to total stock return and even more so if those dividends are reinvested steadily.

SOURCE: J.P. Morgan

So here are the three pillars of your strong-defense, retirement investing plan: reinvest free cash (from dividends), patience (so you can allow time for the power of compounding to build the profits in your portfolio) and what we're going to talk about next … a powerful defense.

Let's break that "defense" down into practical moves anyone can put into place. We're going to tell you the secrets to doubling your retirement gains — yes, doubling them — before you invest a single penny.

## Retirement Defense Step No. 1:
## Follow the "Under 1% Strategy" With Your Mutual Funds

Your retirement portfolio has a leak in it. Actually, many leaks. They are all small, seem like no big deal, and many people don't even realize the leaks are even there. Yet, over time, these "money leaks" will sink your plan as surely as an iceberg ramming the Titanic.

It takes some sleuthing to find these pinhole problems, but anyone can do it.

Let's start with mutual funds: Many people may not realize it, but there's a fee called an "expense ratio" attached to their mutual funds. If you have $10,000 in the fund, and it's charging you an expense ratio of 1%, that's $100 a year! If you invest $100,000, the fee is $1,000 a year and so on.

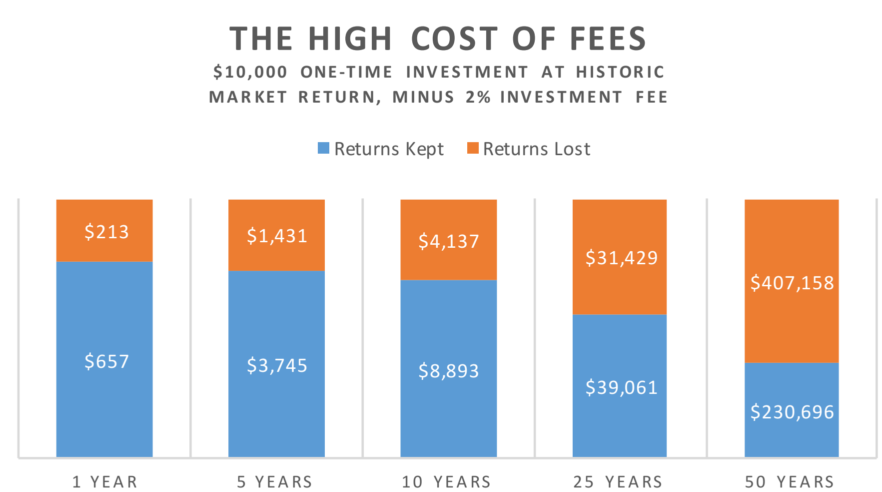
You will never see a bill for that fee — which is what mutual funds charge so they can keep the lights on and pay the rent, along with their managers, analysts and secretaries — but that cash gets taken out of your portfolio like clockwork every 12 months.

It can amount to a lot, when you consider that in 2018, the average mutual fund charged an expense ratio of 1.35%, and some as much as 2%!

So what's the solution? Follow what we call the "Under 1% Strategy." Only buy mutual funds with an expense ratio under 1%. The smaller that expense ratio is, the more money that winds up in your pocket when you retire years from now.

So it's important to remember that when you build a portfolio using mutual funds, the costs of each fund are not the same. A blue-chip U.S. stock fund is likely to cost you about 1% per year, while small-cap stock funds and international stock funds will cost more, probably north of 1.5% for each fund. A bond fund should be cheaper, but sometimes they aren't, especially as bond managers have had to do trickier things to make bond investing pay in a time of artificially low interest rates.

As a result, some big bond funds are edging up in cost toward the 1% to 1.45% mark, too.




The drag of invesment management fees looms ever larger as a percentage of returns kept by the investor, hitting nearly 64% of the total earned by the investment over 50 years of saving.

SOURCE: Vanguard Group

Let's assume that your cost of investing in mutual funds is running around 2% per year. What does that mean? It means that the fund managers are sucking up 2% of the total value of your portfolio each and every year, regardless of their performance. Over just 10 years, that's 20% of your portfolio's potential gains!

Over time, fees hurt — a lot. Consider this: Over 25 years' time, a $10,000 investment in U.S. stock mutual funds — growing at a conservative historical pace of around 8% or so, through ups and downs of prosperity and recessions — will turn into about $70,490.

But presuming you were paying a total expense ratio of 2% for your mutual funds means the managers of those funds will keep an astounding $31,429 of those gains!

In other words, the investor runs all of the risk — but gets to keep just over half the potential gains, or $39,061. Nice work if you can get it.

The effect of the money drain from fees is epic. It's the reason so many retirement savers watch their portfolio stagnate year after year and worry as mutual funds charge their fees, while their account holders must continually delay their retirements because they haven't gained enough in value.

• **Steps to Take:** Review your portfolio's mutual funds and look up their fees on the FINRA Fund Analyzer site (www.finra.org/fundanalyzer). Put the fund tickers and expense ratios on a spreadsheet, along with the amount of dollars you have invested in each. Remember, the fee is based on your assets in that fund, *not performance*. If you have $10,000 in a fund charging 2%, your fee is $200 per year just to hold that investment.

## Retirement Defense Step No. 2: Consider Index Funds and ETFs Over Active Funds

What's the answer? If you are a confident active investor, just buy your stocks directly via a low-cost discount broker, such as TD Ameritrade at $7 a trade or Ally Invest at $4.95. You can build your own portfolio one stock at a time and keep trading costs minimized by rebalancing only once or twice a year.

If you want broad diversification, however, then the way to go is to use either index funds or exchange traded funds (ETFs). Index funds have very, very low management fees, trending to virtually zero.

Seriously, the comparison is hardly worth making in some cases. The Vanguard Total World Stock Index (VTWSX) has an expense ratio of 0.10%, compared to 0.80% for the actively managed Fidelity Worldwide Fund (FWWFX). Each holds virtually the same classifications of stocks, yet one is signifcantly cheaper!

According to FINRA's fund analyzer, if the two funds start with $100,000 and return the same 9% per year for 20 years, the total fees in the Vanguard fund would come to $13,940, while the fees in the Fidelity version would be $45,450. Quite a difference — a difference that goes in (or comes out of) your pocket over time!

You would only pay the extra fees (which add up to a whopping $31,510) if you thought that active management was going to give you a better return. That sometimes happens, but not consistently enough to matter to the long-term retirement investor.

In fact, the better mutual funds often close to new investors once they make a name for themselves. Eight out of 10 actively managed funds simply can't beat their own indexes, resulting in a huge opportunity cost for the retirement investor.

The downside of index funds is that they can be expensive to buy and sell. If you own only Fidelity funds as a Fidelity Investments client (or only Schwab funds at Schwab, etc.), you often pay nothing to buy and sell index funds. But if you mix and match index funds on a third-party brokerage site, the fees can be fairly steep, amounting easily to $50 a trade.

But you do have a cheaper (and lesser-known) alternative…

Not everyone realizes it, but many popular index-based mutual funds also have an ETF (short for exchange-traded fund) versions of the same thing. These ETFs trade just like stocks on the public stock exchanges.

For instance, let's take the Vanguard Total World Stock Index fund. The mutual-fund version, which you might invest in through Vanguard, or through a third-party brokerage, has a symbol of VTWSX. It has an expense ratio of 0.19%.

But Vanguard also created an ETF of this same popular fund. It has the same cheap 0.19% expense ratio, but because it's an ETF and trades like a stock, you're likely to avoid having to pay the high transaction fees that would come with buying the mutual fund itself.

Broadly speaking, the management fees on ETFs are lower than most index funds, trending toward zero in some cases. The cheapest stock-oriented ETFs on the market right now are the Schwab U.S. Broad Market ETF (SCHB) and the Schwab U.S. Large-Cap ETF (SCHX), both at an expense ratio of just 0.04%.

| Symbol | Name | Expense Ratio | Category |
|---|---|---|---|
| TFLO | Treasury Floating Rate Bond ETF | 0.00% | Government Bonds |
| CIBR | NASDAQ CEA Cybersecurity ETF | 0.00% | Technology Equities |
| SCHB | Schwab U.S. Broad Market ETF | 0.03% | All Cap Equities |
| SCHX | Schwab U.S. Large-Cap ETF | 0.03% | Large Cap Blend Equities |
| VTI | Total Stock Market ETF | 0.04% | All Cap Equities |
| VOO | S&P 500 ETF | 0.04% | Large Cap Blend Equities |
| SCHZ | Schwab U.S. Aggregate Bond ETF | 0.04% | Total Bond Market |
| IVV | Core S&P 500 ETF | 0.04% | Large Cap Blend Equities |
| SCHG | Schwab U.S. Large-Cap Growth ETF | 0.04% | Large Cap Growth Equities |
| SCHV | Schwab U.S. Large-Cap Value ETF | 0.04% | Large Cap Value Equities |
| SCHP | Schwab U.S. TIPS ETF | 0.05% | Inflation-Protected Bonds |
| SCHH | Schwab U.S. REIT ETF | 0.07% | Real Estate |
| SCHM | Schwab U.S. Mid-Cap ETF | 0.05% | Mid Cap Blend Equities |
| SCHD | Schwab US Dividend Equity ETF | 0.07% | All Cap Equities |
| ITOT | Core S&P Total U.S. Stock Market ETF | 0.03% | All Cap Equities |
| BND | Total Bond Market ETF | 0.05% | Total Bond Market |
| AGG | Core Total U.S. Bond Market ETF | 0.05% | Total Bond Market |
| SCHA | Schwab U.S. Small-Cap ETF | 0.05% | Small Cap Blend Equities |
| SCHF | Schwab International Equity ETF | 0.06% | Foreign Large Cap Equities |
| SCHO | Schwab Short-Term U.S. Treasury ETF | 0.06% | Government Bonds |

SOURCE: ETF Database

Yes, that's four one-hundredths of 1%.

If you plan to use ETFs, then TD Ameritrade, Fidelity and Schwab have loads of commission-free ETFs, meaning they cost you nothing (zero) to trade. Nor do you have to wait for end-of-day pricing to buy or sell. Since they are ETFs, you can trade them all day, every day if you like.

You wouldn't trade them a lot in a retirement account, of course. But rebalancing is important, and commission-free ETFs drive the transactional cost of rebalancing down to almost nothing. Every penny compounding on your side of the ledger counts!

• **Steps to Take:** Take your spreadsheet of expensive mutual-funds tickers and plug them one by one into the Mutual Fund to ETF Converter at ETF Database (www.etfdb.com). Or just scroll down the list of the 300 most popular active mutual funds and click on the "ETF Alternatives" column for choices. The Dodge & Cox Stock Funds (DODGX), for instance, charge 0.52% while the SPDR S&P 500 ETF (SPY) costs just 0.09% — more than five times less.

## Retirement Defense Step No. 3:
## Destroy Conflicted Advice With Two Simple Words

You might say: "Well, I know my investment adviser. He helped my mom and dad with their money, and I see him at our son's soccer games every weekend. He would never take advantage of me, in the way of putting me into higher-fee investment products."

Yes, he would, and yes, he does. Pull out a statement from the last quarter and look up the funds your adviser has bought in your name.

Chances are, you'll find your retirement plan is loaded with mediocre, high-fee stock and bond funds.

Why would he or she do that? Because the adviser is conflicted from the start. Your financial adviser or stockbroker is paid a number of ways, some of which you almost certainly don't know about.

First, the adviser collects a fee just for being your adviser, probably 1% of your assets (on top of the 2% charged by your funds). But he also is likely to be paid a commission by those very same funds.

Why? To convince you to buy them. In a crowded mutual-fund market, there is precious little difference in performance between many funds in the same category, all investing in the same asset class, with the same groupings of stocks. So they pay advisers and brokers a commission to promote their fund over that of a competitor's.

You pay that commission, of course, in the form of a lower return. The costs are passed along and drag down long-term returns. Yet your adviser is not required by current law to disclose any of these conflicts.

How do you keep to your retirement goals amid such conflicted advice?

Ignore it. Those are the two simple, courageous words you should keep in mind whenever your advisor makes a pitch to you on a hot new mutual fund he wants to put your money into. Makes sure he only puts you into funds that you want, with the lowest fees possible (keep in mind the "Under 1% Strategy" we mentioned in Retirement Defense Step No. 1).

The big problem for many retirement savers is that 401(k)s aren't any better. Instead of conflicted advisers, you get a simple selection of mutual funds, but those funds often are overpriced and you can't easily choose cheaper alternatives.

Add in the overhead costs for the plan's manager and you end up with fees north of 2% just the same.

Unsure about your 401(k)? Talk to your HR director about your options. It might be the case that you can choose index funds over actively managed funds or buy a target-date fund comprised of index funds.

A target-date fund will be based on your expected date of retirement and handle rebalancing automatically, but it doesn't help if the underlying mutual funds are costly, actively managed products.

Check the bottom-line expense ratio of any target-date fund or fund of funds carefully. Anything under 0.20% is a very competitive option.

• **Steps to Take:** If you simply can't lower your investment costs at work, ask about an "in-service" rollover.

You would be taking your money out of the 401(k) and investing it separately in an IRA, but at least you can control costs. If you have an adviser and think he is a straight-up guy, express your concern and ask him to build you a "conflict-free" portfolio of index funds and ETFs. If he balks, something is wrong. Get away quickly.

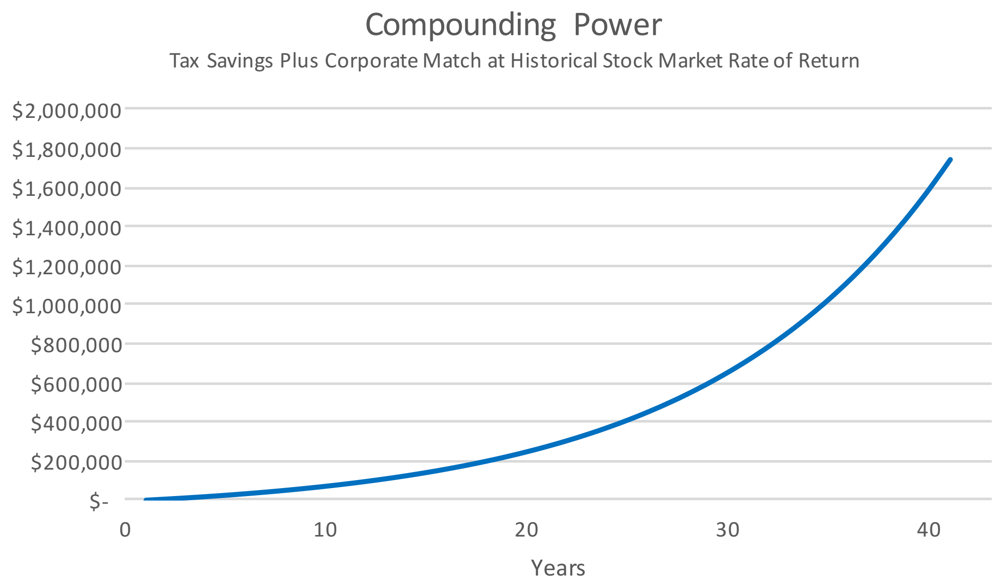
## Retirement Defense Step No. 4:
## How to Get the Most From Your Company's 401(k) Plan

"It's my money and I want it now!" goes the TV commercial. People like the idea of getting control over their own money, but they don't often think about that when it comes to retirement investing.

One big way to make sure you have more in retirement is to save more, and you can save more by reducing your taxes. In effect, you get to play with the house's money. Every dollar you don't pay in income taxes and save instead is a dollar working for you and compounding.

That means you need a 401(k), even if the funds inside it are not your first choice.

First of all, you can save thousands of dollars per year pretax (up to $18,500 in 2018). If you are in the 25% tax bracket, that means a dollar-for-dollar reduction in your taxes of $4,500 per year. The same goes for an individual retirement account (IRA), although the limits are lower.




You don't need to save a lot if you can save early enough and let compounding do the heavy lifting. Put in just $5,580 a year — equal to tax savings in a 401(k) plus a corporate match — and your retirement plan is on track to succeed.

SOURCE: Banyan Hill

Employers often match your 401(k) contributions up to the first 6%, so not using your workplace retirement plan is just leaving money on the table. The tax savings and matching alone comes to $5,580.

It seems like a small amount, but over 40 years compounding at a market return, that adds up to just over $1.7 million in your retirement fund! You are taxed only on the withdrawals in retirement at your income tax rate then, which presumably will be much lower.

If you are over 50, you can save even more. The IRS allows "catch-up contributions" in 401(k) and IRA plans that let you set aside an additional $6,000 a year. Again, that's only if you are 50 years of age or older. If you use a health savings account, there's a catch-up there worth an extra $1,000 a year starting at age 55.

If you max out your 401(k), 403(b) or 457 at work — these are all similar plans — you might want to do more. The next step is a Roth IRA, which offers you no tax break now, but withdrawals in retirement are taxfree and all of your gains and dividends in between are tax-free, too.

Here the limits are set by your income, but most people can and should have a Roth, either through work or independently. You can convert old IRA or 401(k) money into a Roth, too, but you will pay the income taxes due on any conversion amounts, so be sure you can afford it, or do it in a year when your income is much lower — say, a year you are out of work or decide to retire.

There are still more tax-deferral options to consider. If you are the sole breadwinner in your home, have your spouse open an IRA. You contribute to his or her IRA up to a limit based on income and your other IRA savings contributions.

Likewise, a health savings account (HSA) is funded with pretax money and tax-free if you use the money later for medical purposes.

Finally, if you are self-employed, you can open what's known as a solo or one-participant 401(k) and put away the normal 401(k) and 25% of your net income, up to $55,000 a year in pretax savings.

## "Tap and Save" Your 401(k)

Many people have 401(k) plans through their employees, but if you're over 59-1/2 years old, you have one more option to give yourself additional flexible income, still get the matching contribution that many companies make to their workers' plans and avoid the penalty that usually comes with early withdrawal from a definedcontribution retirement plan. We call it "tap and save"(you may read about it elsewere as "deposit and withdraw.")

Let's suppose you have a new expense you need to cover in your monthly spending budget, but you can't quite make ends meet because of your 401(k) contributions each month. Perhaps you'd like to stop making your monthly contributions for awhile to help pay for this new expense, but doing so would mean you'd miss out on your company's matching contribution to your plan.

With "tap and save," that's not a problem. You see, the rules for most plans allow employees over the age of 591/2 to withdraw a portion of their 401(k) balances without a penalty (though those withdrawals are still subject to regular tax rates). So what some people do is make their usual 401(k) contribution (which the company then matches), then immediately withdraw some of the money if they need it to meet some unexpected bills.

Keep in mind, you wouldn't want to use "tap and save" for too long of a time, because you're defeating the whole point of having a retirement plan in the first place. But for a short period of time where you may need additional cash, "tap and save" is a little-known way to make ends meet yet still retain the important benefits that go with having a company-sponsored 401(k) plan.

• **Steps to Take:** Review your retirement savings plan options with an eye toward maximizing your annual deferral of income. Open a Roth IRA, even if you have nothing to put in it yet. E-Trade and TD Ameritrade allow customers to open traditional and Roth IRAs with no initial deposit, while Fidelity and Schwab will open your IRA if you commit to automated monthly contributions as low as $100. If you earn a high income, talk to your tax professional about IRS traps like the Medicare tax.

## Retirement Defense Step No. 5: Maximize Dividend Power

How much can you save on your own? Ten percent of your income? Maybe 15% in a pinch? That's why dividends are such a big deal. It's free money cycling back into your retirement plan like clockwork, regardless of what happens to the investments themselves. A typical stock fund likely yields about 2%, the broad dividend yield of the S&P 500. That means that, of those 500 stocks, some number of them are paying a higher dividend, and some are paying a lower dividend or no dividend.

It's really important to put all of that income to work on your behalf. You could let the dividend cash pile up, along with any incoming interest payments on bond holdings. But if you don't need the income now, it's much better to reinvest dividends automatically.

If you own an individual stock through a brokerage, this is as easy as checking a box when you first buy the position to signal dividend reinvestment. Exxon Mobil (XOM), for instance, recently paid a dividend of $0.82 per share quarterly. That's $3.28 per year for every share you hold.

If you buy 1,000 shares, you earn $3,280 in income per year for doing nothing but holding the stock. Put another way, it's a chance to increase your holdings by a little more than 35 shares for free by reinvesting the cash.

Important: If you reinvest automatically, you get fractions of shares, meaning every penny is poured back into buying stock in your name.

The same thing happens at the fund level, too, if you reinvest income. A modest IRA with $200,000, earning a stock dividend yield of 2%, is putting $4,000 a year back into your pocket at very little risk, year after year.

The most efficient way to reinvest dividends is through the company itself, rather than via your broker. The issuing company takes the dividend and dips into its own share reserves to increase your holding. Thus you avoid commissions and the friction of buying on the secondary market.

| Symbol | Company | Dividend Yield |
|---|---|---|
| CTL | Century Link | 11.68% |
| KIM | Kimco Realty Company | 7.96% |
| SCG | SCANA Corporation | 7.01% |
| IRM | Iron Mountain | 6.79% |
| VTR | Ventas | 6.66% |
| LB | L Brands | 6.63% |
| WELL | Welltower | 6.45% |
| HCP | HCP Incorporated | 6.39% |
| PPL | PPL Corporation | 6.27% |
| T | AT&T | 5.82% |

SOURCE: Yahoo! Finance

On the other hand, if you like the idea of actively managing your portfolio, you can hold a variety of dividend stocks and make purchases as you please. For instance, if Johnson and Johnson (JNJ) pays its quarterly dividend, but you think the price of Altria (MO) is a better deal, you can put the JNJ cash into MO instead (or vice versa). Finally, there's no reason to accept the broad market dividend rate of around 2%.

AT&T (T), for instance, recently paid 5.82% to its shareholders, while Chevron (CVX) paid 3.54%. Both are members of the "dividend aristocrats" stock list, companies with higher-than-market dividends and a track record of increasing the dividend every year for the past 30 years.

• **Steps to Take:** Set your investment portfolio holdings, whether mutual funds or individual stocks, to reinvest automatically. If you are picking stocks, make sure to consider the sustainability of the dividend payments of stocks you hold for their dividend-paying reputation. Look up "dividend aristocrats" online and build your own dividend-power portfolio.

## Retirement Defense Step No. 6:
## Turbo-Charge Your Savings with the "1% Rule"

Remember Step No. 5 and the importance of using your 401(k) account to maximum advantage? For many people (likely yourself, too) the toughest part is just mustering up the strength to put even more of their hardearned money into that retirement account.

It's a perfectly reasonable fear to have. Retirement accounts have many advantages — they help you to lower your taxes, and to plan and save for the future. But every dollar saved means less available to live on today.

That's why most people, on average, contribute no more than 6% of their pretax earnings to their 401(k) accounts. But with the "1% rule," you'll have a proven way to help you raise your contribution over time — without feeling like it's a real hardship.

It works with a simple system. If you're contributing 6% now, tell your company's 401(k) administrator you want to raise your contribution to 7% (or you can make the adjustment yourself, more than likely, through your company's 401(k) web portal).

Make a note on your calendar to raise your contribution to 8% a year from now, then 9% a year after that. You'll keep raising your annual contribution level by just 1% more until you finally max out your contribution limit ($18,500 a year if you're age 49 or less. Add another $6,000 in IRS-approved "catch-up" provisions if you're age 50 or older).

In terms of dollar amounts, the average American contributes only $3,000 a year to his or her 401(k) account. Even if you're contributing more than that — let's say you're adding $9,000 a year. What's the price of contributing an additional 1% — one or two fewer trips for coffee at Starbucks each week? Or fewer lunches at your favorite eatery each month?

As a final note, think about the power of "compounding" as your additional contributions grow in value inside your retirement account. At 8% a year (the historical long-term average for the stock market), your money doubles in value in just nine years. At 10% a year, it doubles in value in a little over seven years. Even if the stock market grew at less than its historical rate in coming years — let's say it turns out to be 6% — that still means you'll double your money in just 12 years.

Such is the power of using the "1% rule" today, and letting time and the power of compounding do the rest of the hard work.

• **Steps to Take:** Raise your 401(k) contribution limit by 1% today. Raise it by the same amount or more every 12 months. You'll find yourself painlessly saving a lot more than you ever thought possible.

## Retirement Defense Step No. 7: Triple the Value of Your Savings Overnight … By Taking a Long "Dream Vacation" Overseas

I have a final suggestion when it comes to increasing the value of your retirement gains. Ultimately, to have a happy, satisfying life in retirement, your yearly income must be more than your yearly expenses.

Easy to say, almost impossible to achieve, right?

But instead of worrying about how to increase your income — what if you moved outside the United States, to countries where there's a large American expatriate community and a dramatically lower cost of living?

Suddenly, the "impossible" isn't so impossible after all. Just take a look at a chart we've prepared looking at six categories of living expenses (food, housing, transportation, personal care, entertainment) in a variety of sunny offshore retirement locales:

| Country | Food | Rent | Trans. | Personal Care | Entertainment | Cost vs U.S. |
|---|---|---|---|---|---|---|
| Punta del Este, Uruguay | -24% | -50% | -49% | -35% | -12% | -35% |
| Granada, Nicaragua | -46% | -32% | -17% | -20% | -34% | -30% |
| Panama City, Panama | -9% | -13% | -44% | -29% | -2% | -18% |
| Seville, Spain | -28% | -41% | -20% | -24% | -32% | -30% |
| Lisbon, Portugal | -31% | -42% | -3% | -36% | -13% | -25% |

SOURCE: Expatistan

In other words, moving offshore is like giving yourself a large jump in income, simply because prices in these locations (and many others) are so much cheaper, and your money goes so much further in value.

You can take this one step further and buy your own place overseas. The prices vary, depending on the country in question, foreign exchange rates, and the property's location (beachside, mountains, urban), but it's something that most people should at least take a look at when considering their retirement options. Some people buy a place, live in it part-time, and rent it out (with the help of a real estate management firm) for a number of months. Others buy a place and make it their full-time residence.

• **Steps to Take:** Start thinking about where you might want to retire outside the United States. The point is, even if you have long given up hope of having a comfortable retirement, you do have choices if you're willing to expand your consideration of residences outside the United States.

**HEALTH CARE**

# How to Get TWICE the Health Care for Half the Cost

But, solid investments will only get you so far, especially if you can't afford to be healthy enough to enjoy them. When it comes to health care, you hear the same old story every time someone brings up high costs. Prices would drop if Americans would just shop for their medical needs. If only it were that easy!

The unfortunate truth is that even finding a doctor is no walk in the park. Once you get a referral to a specialist, it's hard to locate another nearby with the same experience and skills.

If you do, the other guy is not taking new patients anyway. Unless you live in a big town with lots of competing hospitals, you can forget getting a break on that MRI. Emergency rooms don't negotiate one little bit. And there's no time to price ambulance services once you've already called 911.

Yet you can slash your overall spending on health care — with just a little planning and effort. I'm talking about easy strategies that cut the cost of drugs, routine exams, insurance premiums and other services, even dental and vision costs.

You don't have to be a hard-nosed negotiator. You just have to be smart about your options and willing to make a few phone calls. In some cases, the breaks are hidden in plain sight, already in use by your friends and neighbors.

Who knows: Maybe the things you learn from this report will help your neighbors, family and friends with their medical costs. It's all about being an advocate for yourself — and for your wallet.

Need to save some big money on your family's health spending? Let's get started.

## Never Pay Retail for Drugs

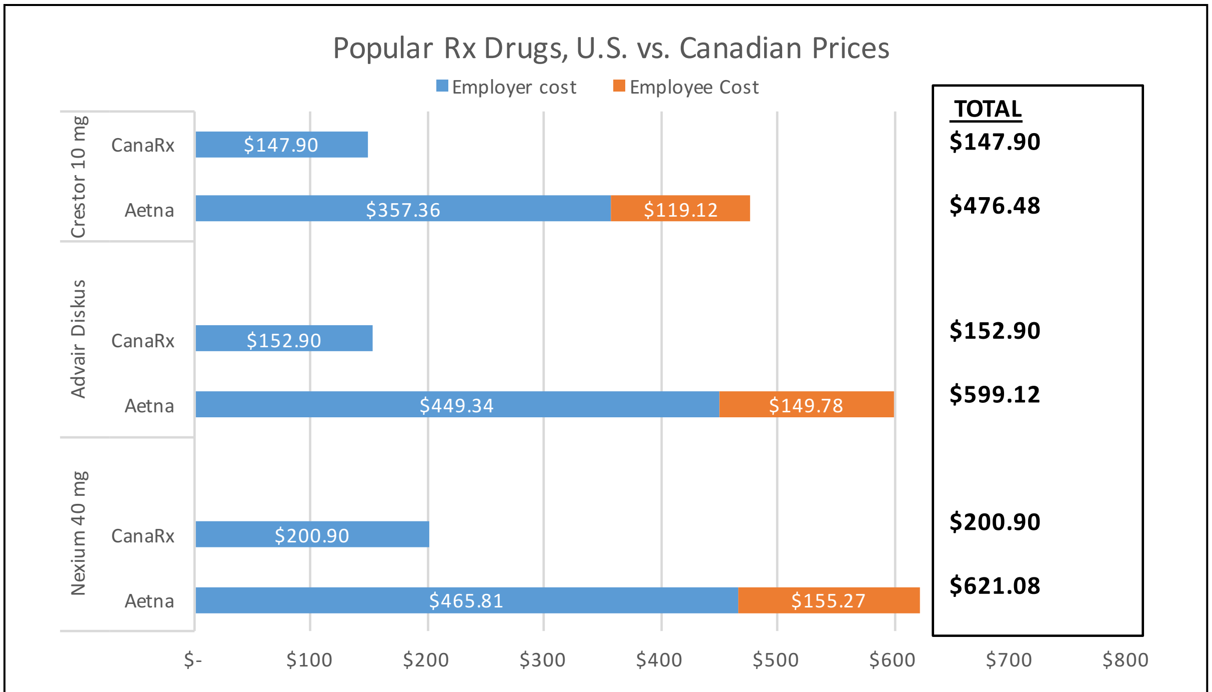
The global pharmaceutical business is pretty messed up, as I am sure you would agree. The prices we pay here in the United States are many times over what people pay abroad for the same medication.

Why is that? A lot of it has to do with how drug companies try to make back the billions they spend in developing new drugs, regulations and, of course, the money they hope to make for their shareholders.

That means different prices for different buyers, so many drug buyers in the "rich world" countries pay more as a result. Even Canada is much cheaper!

But that doesn't mean you have to pay the full cost for every drug your doctor prescribes — or even buy a drug at all.

Start with your doctor, right there at the moment he writes the Rx. Ask him: Is this drug really the only solution to my problem? It's counterintuitive, but many of our modern ailments are "solved" by drug consumption, but aren't necessarily "cured."




Average cash prices in Portland, Maine, for a 90-day supply of commonly prescribed drugs from insurer Aetna compared to prices through CanaRx, a Canadian broker. SOURCE: City of Portland

Take heartburn medications. Would a change in diet mean less need for heartburn meds? Would losing 10 pounds or quitting coffee reduce or eliminate the need for a costly drug? Would moderate, daily exercise offset your need for a pricy blood-pressure med, with all of its side effects?

## Join These "Secret Health Savings Clubs"

Wouldn't it be nice if shopping for healthcare was like shopping for so many other products and services – the kind that come with price discounts? I mean, when was the last time your doctor, dentist, pharmacist or hospital said "We're having a 20% off sale this month"?

Believe it or not, it's possible to get just such discounts with little-known health savings clubs. Usually you'll find them marketed as "health discount programs." But first, let's get a couple things straight…

- Health discount programs are NOT health insurance.
- There's no reimbursement of your health care providers, either. You get the discount when you pay for the service or product in question.
- You pay a monthly premium, and in return, the administrator of the health discount program negotiates with your doctor and other health care providers to accept a reduced fee.

What would a doctor or hospital perform agree to that? Because the health discount program brings them an increase in business, in the same way that coupons help boxes of cereal and other items fly off your local grocery's shelves.

You can usually save up to 20 to 30% on a provider's services (but beware any health discount program claiming to offer discounts of 50% or more — chances are it's either a scam, or just plain lying about the real savings you might get from the plan).

So where can you find a good health discount program? Chances are, if you have a health insurance plan already, then your provider may offer a discount program too. Call up their customer service people and ask, or look through the plan's guide book sent to you when you signed up for the policy.

What if you don't have health insurance (or your provider doesn't offer a discount program)?

First, DO NOT buy a health discount program over the Internet without doing a lot of research. The Federal Trade Commission warns that while some medical discount plans provide legitimate discounts, others take your money and offer very little in return.

Experts say the right way to find a health discount program is to first visit your personal physician's office and talk to a responsible person in the office's billing unit. Or if you've done some Internet research already, and are interested in a particular company's health discount program, bring the sales pamphlet or printouts with you to the doctor's office.

The billing person there will be able to advise you on the discount plan, whether its provider is legitimate or not, and whether you can get the advertised discounts from the doctor's office.

Yes it takes a little extra work, but it's well worth it when you consider the savings involved on just a few visits to a doctor (dentists, hospitals, pharmacists and other health care providers, too).

## Save 85% With Generics

If you must take a drug, absolutely ask for generic options first. Generic drugs are identical to their namebrand versions and can be up to 85% cheaper. If you have a very high insurance deductible, you will pay out-of-pocket 100%, so make sure to get generics whenever possible.

Your cost of coinsurance will be lower, too, on generic drugs. You are likely to pay coinsurance equal to 50% of the cost of a branded drug, but as low as 10% of the cost of a cheaper generic alternative.

The insurance company also will to steer you toward these lower cost options — choices which might not be obvious until you ask.

Doctors prescribe nongenerics out of habit, or because they have been sweet-talked by a "pill pusher" from the drug's maker. The visiting salesperson (often a young woman) showers the office with coffee and donuts and plies doctors with free travel to "conferences" in tropical locations.

One drug marketing firm exclusively hires former college cheerleaders for this job! It's your money, so push back. Tell the doctor you want generics in every case possible and get their honest reaction.

You are likely to find, too, that your insurer simply won't pay for some name-brand prescriptions at all because of the high cost. In this case, be sure to ask your doctor if using the name brand is absolutely crucial.

He might cite reasons why the name brand is preferred — reasons you might agree with. In all other cases, generics will be fine, and you will save big just by switching.

## Grab Deep Rx Discounts

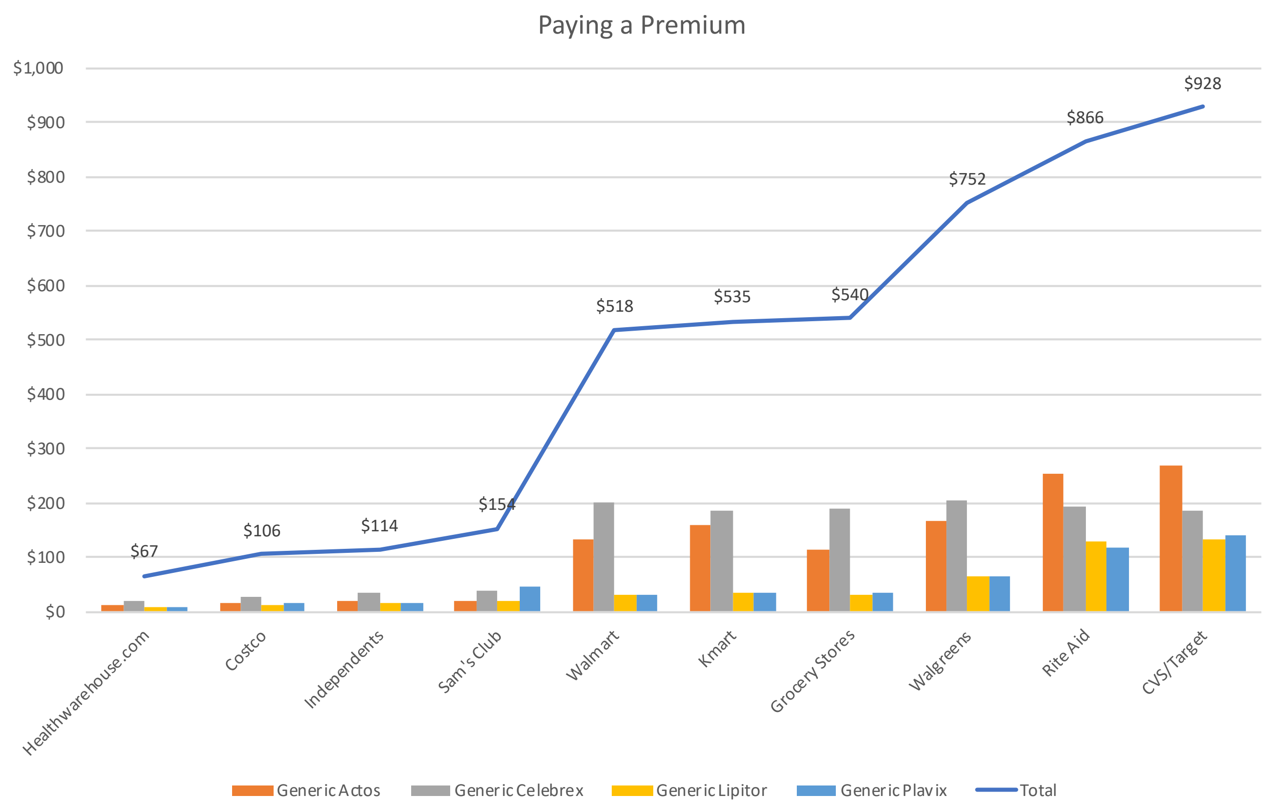
Don't stop there. Big-box retail chains such as Wal-Mart, Target and the warehouse stores typically offer volume pricing on generic drugs.

If you know you will take a specific medication for a long time, you can find them in these pharmacies much cheaper than at your normal corner drugstore. Discount stores are up to 60% cheaper for commonly prescribed drugs for cholesterol, high blood pressure and other chronic ailments.

Your insurance company also may have a deal to drive your business to Costco or a similar warehouse store where you already shop. Low-cost drugs are a "loss leader" for them, a way to get people into the store.

## Don't Pay the "Convenience Markup"

Another way to look at it: Using a "nonpreferred" drugstore is probably going to cost more for the same drug




The prices for a 30-day supply of five commonly prescribed generic drugs varied widely in this survey of online and drugstore sources. The green line shows the total monthly cost if you bought all five at the corresponding stores below.

SOURCE: Consumer Reports

— sometimes much more. Most people just go to the drugstore on the way home from their doctor's office. They unwittingly pay a premium for that convenience.

It's the difference between buying milk at a gas station versus at a grocery store. Which do you think will be more expensive? The faster and more convenient option, for sure.

Don't go from the doctor's office straight to buy your prescription, unless your physician instructs you to do so. Go home, fire up the Internet and research prices first.

If you know you're going to take a drug for the long term and you have to start it right away, go ahead and buy that first month's supply. But then look into pharmacies by mail, where prices for a 90-day supply are often the same as the cost for just 30 days' supply at the corner chain drugstore. Many insurers have special relationships with pharmacies by mail or through a "preferred" pharmacy.

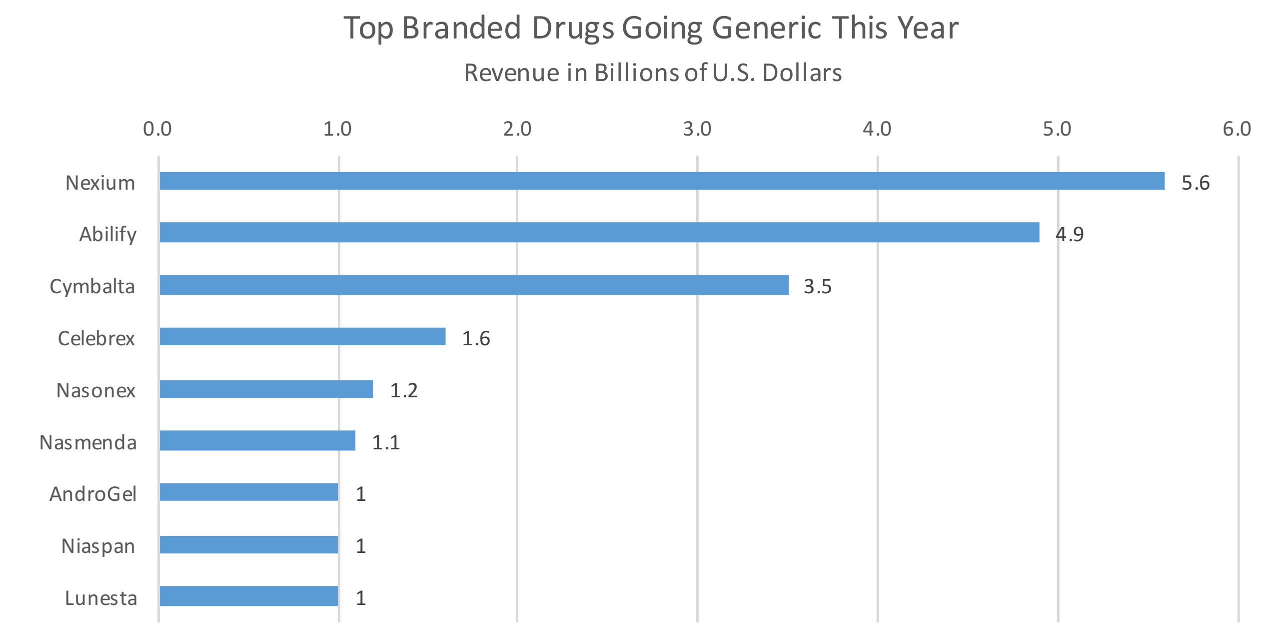
## Be an Online Sleuth

Remember, many of your friends and neighbors likely already take advantage of these price breaks. Ask around! The drugstores have no incentive to advertise lower prices, nor do the drug companies.

Your doctor won't even bring it up. So you have to do some sleuthing to find the best price, particularly if you expect to take a drug for a long period of time.

If you do end up taking a name-brand drug, set up a Google alert online for the drug's brand name, plus the words "generic" or "patent expiration."

Many drugs have a specific window of time before they are forced to release the drug's formulation to

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SOURCE: Consumer Reports

generic providers. Go to www.google.com/alerts and follow the simple instructions there. You will get emails daily or weekly as news stories feature your chosen keywords.

Your costly prescription drug might be on the verge of dropping in price!

Some insurers, too, will send you email alerts on your meds, precisely to tell you when prices fall, but you have to set that up online, too. Check with your provider.

## Find "Super Doctors" for Super Preferred Prices

Increasingly, health care is becoming a lot like other types of businesses where more volume (meaning more patients) for a medical provider means lower prices. In the last few years, this has led to a new concept among health insurance companies, pointing their members toward so-called "super preferred providers." What exactly is a "super preferred provider"?

Sometimes it's a doctor's office known to the insurance company as providing good consistent medical services for a price lower than other providers in the insurance company's network. Other times, the insurance company is trying to drive more business toward certain in-network providers and medical facilities.

The more patients they can point toward a particular office, the cheaper they can provide the services in that office. Often, the insurer will offer additional incentives, such as a lower copay or coinsurance rate, to help convince you to visit these "super preferred" providers.

## Office "Hide and Seek" With Surgeons and Other Specialists

These days, health care specialists often practice their craft in a variety of settings: their practice's offices, one or more local hospitals, as well as outpatient clinics. He's doing the same thing at each place, but the costs could vary widely.

Here's an example: Let's say you're told by your doctor that you need a colonoscopy. He might automatically schedule the session at a local hospital where he has privileges. Why that hospital? It might have nicer offices and better equipment. Or perhaps it's just closer to his practice's office or personal home.

Most of the time, that's where the conversation between specialist and patient ends: show up at the appropriate time, have the procedure performed and look for the insurance company to send you the bill.

As a patient, though, you're well within your rights to ask: Is there someplace cheaper where you can have this procedure performed? A hospital is an expensive place for a routine medical procedure. Another hospital might be cheaper. An outpatient clinic might be even cheaper. Ask for options, and chances are you'll find there are cheaper alternatives available.

## Get Coupon Deals on the Spot

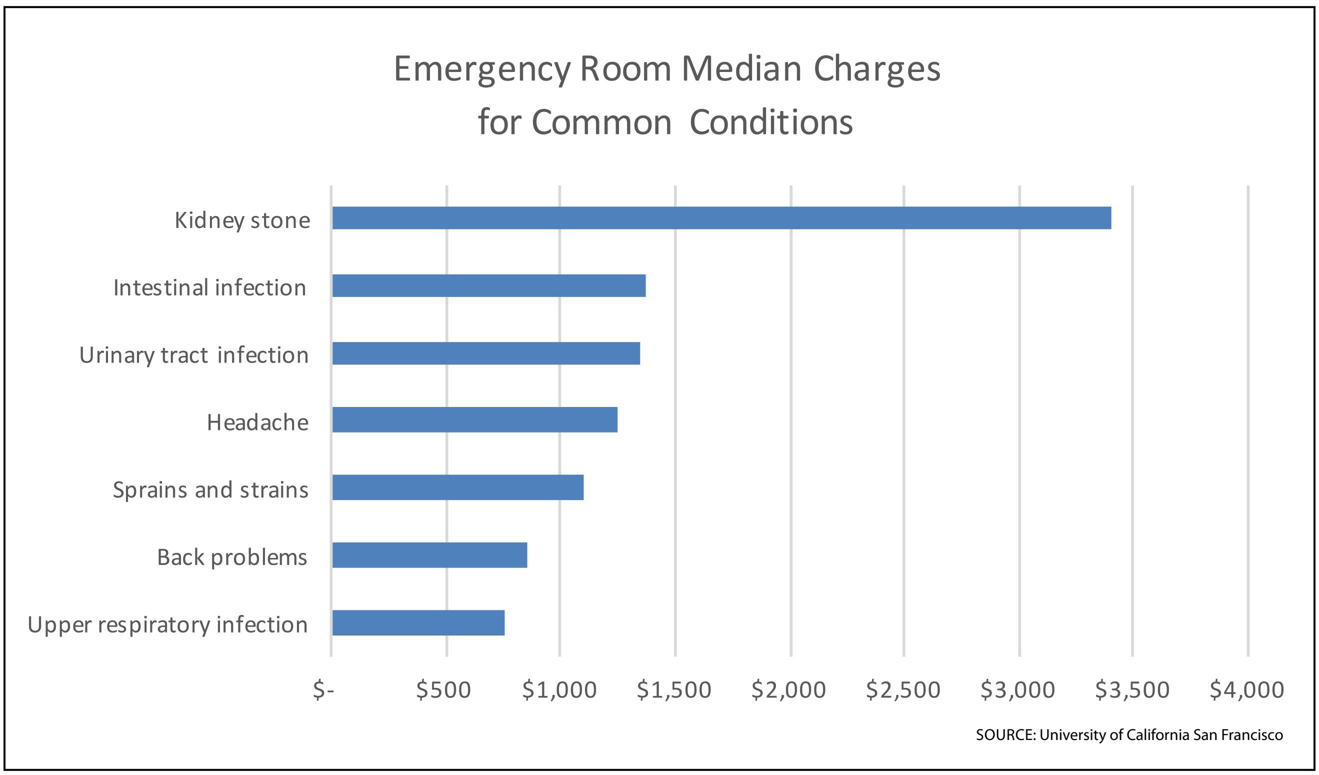
Increasingly, big drug companies are under fire for "one-size-fits-all" pricing in the U.S. health market. That has driven people to import cheaper-version drugs, sometimes illegally, from foreign countries.

No need to go to that extreme. You can fight high prices easily enough just by using your smartphone or Internet at home. Online coupons are out there and they can help you avoid paying full price for many highly prescribed drugs.

GoodRx (goodrx.com) and LowestMed (lowestmed.com), for instance, are two services that let you look up a medication on the spot and get a coupon that can drop the price drastically. Their smartphone apps even show you which local pharmacies have the best deal at the moment.

Drug companies want to avoid more regulation, so offering coupons and financial assistance programs helps them blunt the urge from Congress to force them to lower prices across the board. It also blunts the growing drug-import business.

The catch: You won't be able to apply the discounted drug's cost to your insurance deductible. Yet if the price drops from $300 a bottle per month to $15, you might not be that concerned about your deductible anyway.



## Split Your Pills

If you look closely at your medications, you will notice that some have a tiny line across the middle. These are manufactured specifically to be split in half.

Check with your doctor. He might have written you a prescription that only comes in one dosage, but a smaller dosage could be adequate for your needs. He could easily say, "Sure, let's try it at the half dose and do a follow-up visit in a month."

Nobody has exactly the same reaction to medications, and illnesses progress differently on each patient. Your doctor also may choose to write a prescription for a double-strength tablet at the same or similar cost that you can then split. If the pill doesn't come with a line on it, you can get a pill splitter at any drugstore for as little as $3. If you can split the pill, that's an automatic 50% savings, since your 30-day supply will now last 60 days instead!

**Note:** *Never* underdose yourself without a doctor's advice. Medications should be managed carefully, especially if you take more than one drug at a time.

Finally, the National Council on Aging serves as a clearinghouse on patient-assistance programs sponsored by big drug manufacturers. You can learn more about breaks based on income at their web site, www.benefitscheckup.org.

Or go to the website of the maker of your drug and search for "patient assistance" to locate powerful coupons.

## Doctor Shop the Right Way

Gone are the days of the family doctor, right? Not so fast. Your physician probably hates dealing with insurance companies, too. That can be a good thing.

You need insurance, of course. Nobody wants to face untold thousands in medical bills without it. But you don't necessarily need insurance just to get good medical care at the right price.

Many doctors now accept payment in cash and offer serious discounts for paying on time. Some even have converted to all-cash practices and don't even file insurance claims.

Since what they can charge is negotiated anyway, the cost and delay of going through your health plan only just adds to the cost of running their business — why hire a full-time medical coder and insurance specialist at all?

Before you sign on with a new doctor, check around with a few general practitioners. If any of them are working outside insurance on a cash basis, you will hear about them soon enough from people in the community.

Then ask if the practice is accepting new patients and get a price list of common services in writing.

## Pricing Cash-Only to Your Reality

If you're the kind of person who sees the doctor once a year and occasionally needs help with a sprain or a cold, a cash-only practice might be the ticket. That way, you can opt instead for catastrophic health insurance with a lower premium and a high deductible.

You'll never hit that deductible going to a cash-only practice, but that's okay if your health care needs are so light that it's unlikely you'll meet even a moderate annual deductible.

If you have a family insurance policy, it's probable that you will spend at least $1,000 a year dealing with ordinary crises and illnesses.

Think back over the past year and write down all the visits and medications you took — then compare it to the cost of going cash-only.

You can compare costs, too, by looking closely at prices negotiated by the insurance companies serving your market.

It varies dramatically state by state, but generally you can find out the "allowable" charges for a variety of ordinary procedures on the website of the largest insurer in your state. The more you know about prices, the more you can compare.

## Count the Faces in the Room

When it comes to procedures and exams, remember that the doctor is just part of the total cost. You pay for the equipment, the technicians, the nurses — everyone who comes and goes during your visit.

If your physician wants you to get scanned or have an X-ray, ask about alternatives. An MRI at a major hospital could cost you thousands of dollars, but just a few hundred at a stand-alone radiology center. Getting minor surgery at an outpatient clinic almost certainly will cost you a fraction of going outpatient in a large hospital setting.

Many states require hospitals to treat anyone who walks through the door, regardless of their ability to pay. That's why you see crazy hospital bills listing Tylenol at $50 a pill. The hospitals have to make up the losses somewhere on the people who get treated in the ER and then skate, never paying a cent.

## Decide Before You Go

Think about your occasional, nonroutine health problems like a soldier in the field, triage-style. What is the appropriate course of action for the real problem?

If it's the onset of a minor cold or flu, you will spend a lot less money seeing an on-call doctor or nurse practitioner at a chain drugstore, such as a CVS "Minute Clinic." If it's a weekend sports injury with no bleeding, an urgent care center can see that and cost you a small fraction of the cost of the emergency-room physician. If it's a more mysterious symptom, however, that's when you probably need to see your own doctor, someone who can track the course of your concern and possibly refer you to a specialist, if necessary.

## Use the Phone First

An increasingly common alternative is to seek the advice of a live physician or nurse over the Internet, known as telemedicine. Usually, these services are offered by health insurance providers and are meant to help you understand when a more in-depth visit is required. The cost is about half that of a normal office visit. The on-call professional can call in a prescription for you, too.

Basic advice can be had for nothing, even. Blue Cross Blue Shield, for instance, operates a 24-hour "nurse line" free to its members, as do UnitedHealthcare, Kaiser Permanente, Anthem and Humana.

Once you have determined that you truly need an exam or a procedure, say, outpatient surgery or an MRI, take the time to figure out what the right price is before you book the appointment.

You can look up what your own insurer considers an allowable price for a number of common procedures on their website, or use Healthcare Bluebook (www.healthcarebluebook.com) to find up-to-date cost estimates. Then call up the provider and ask them the price of your procedure before you go. If you plan to file through your insurance company, say so. You will learn quickly whether the provider works with your insurer or not, and that's a big deal. If they don't, the "off-the-street" price could be much higher.

## Get Costs in Writing

A heart MRI, for instance, is listed on Healthcare Bluebook at $649, including both the technician's work and the doctor's time. Through the site, you can print a binding agreement to take to your doctor that holds them to the quoted price or asks them to make a counteroffer in writing.

If you don't plan to file for your insurance and instead will pay cash, say so. You are more likely to be offered an instant discount for paying cash on the day of service. Always ask for the whole price of procedure, including any specialists, technicians, radiologists or support nursing staff who might bill you separately.

It might be embarrassing to say so, but if you happen to have a low income, mention that. Some service providers offer deep discounts to a portion of their patients on a pro bono basis.

## Hit the Road for Better Pricing

Consider how far you might be willing to travel to lower your cost of health care. A surgery center in a big city that has a line out the door will be in no mood to negotiate over prices, while a perfectly good center across the state line might be empty and hurting for business. It could be that the cost of a tank of gas and a cheapo business hotel would be more than covered by the discount on the service itself.

Some folks even go abroad for care. Health tourism, as it's called, is common in Mexico and the Bahamas, and not just for plastic surgery. Highly qualified doctors and dentists in Mexico will set up shop in small border towns near to U.S. border cities and set up all-day clinics for a variety of common procedures.

In Mexico City, for instance, there are nearly a hundred accredited hospitals performing procedures as simple as checkups and preventive care and as complex as cancer treatments and heart surgery.

## Get More Out of Health Insurance

Often, people misunderstand the role of insurance in health care, to their own financial detriment. The job of insurance is not to make health care free, but to transfer financial risk away from your family.

**Your Estimated Tax Savings**

| Without HSA | | With HSA | |
|---|---|---|---|
| Gross annual pay (estimate) | $60,000 | Gross annual pay (estimate) | $60,000 |
| Estimated tax rate (30%) | - $18,000 | Maximum annual family coverage HSA contribution | - $6,750 |
| Net annual pay | = $42,000 | Adjusted gross pay | = $53,250 |
| Estimated current + future healthcare expenses | - $6,750 | Estimated tax rate (30%) | - $15,975 |
| Final take-home pay | = $35,250 | Final take-home pay | = $37,245 |
| Take home this much more | | | $2,025 |

*All figures in this table are estimates and based on an annual salary of $60,000 and maximum contribution limits to the benefit account. Your salary, tax rate, healthcare expenses and tax savings may be different.*

Think of it like car insurance. You don't expect having auto coverage to protect you from an accident or even cover the cost of your fender bender. Most small repairs fall well within annual deductibles.

You do expect a car policy to help you replace or repair a big loss, should that happen. Health insurance is not different; it's just much more complex.

The first and most important rule in insurance is to stay in your network. When you go to see a specialist, make sure they are "in network" and recognize your plan's benefits.

Insurance companies put doctors under a contract to work at a specified rate, usually a difference of 20% to 40% cheaper, depending on the service. There are even "super preferred" providers that insurance companies rate as highly efficient and who will drop your costs even more.

## Choose Your Own Specialists

Where this gets tricky is when you have a complex procedure done that involves more than one doctor or specialist. The time to ask is before you show up at the clinic. An out-of-network radiologist might review your records ahead of surgery at the doctor's request because he happens to be at the hospital at the time.

Then the bill comes and you find higher, out-of-network charges that you did not expect.

The out-of-network price is higher because the in-network providers agree to the insurer's negotiated rate, but outside providers can charge any price they want. You also will pay a higher deductible for out-of-network care and higher annual out-of-pocket expenses.

Before you visit a doctor or have a procedure, ask both your insurer and the providers if they're included in your plan's network. If you're having surgery, check on the surgeon, the anesthesiologist and the facility.

Your insurance provider often will ask you to work with them to plan a hospital stay ahead of time, precisely to lock down who will see you and at what cost. Work with them in order to avoid surprise bills in the mail months later.

## Get All the Free Care You Can

Remember, too, that the Affordable Care Act changed the game, both positively and negatively. One of the big positives is that preventive care is now free, regardless of your plan, premium or deductible.

That means you can get screenings for blood pressure, diabetes and cholesterol, mammograms for women, vaccinations and annual checkups at no cost. The only restriction tends to be at what age you can request a screening.

For instance, colorectal cancer screening starts at 50. Most basic exams, however, have no restrictions or are dependent only on your risk as assessed by your own doctor.

Find a list of free care services at [www.healthcare.gov.](www.healthcare.gov) Medicare recipients also benefit from a long list of free screening services, which you can find at [www.medicare.gov.](www.medicare.gov)

However, the provisions under the Affordable Care Act may soon be changing, as the new president and administration move forward with their plan to reshape American health care. For now, however, these benefits remain intact.

## Lower Your Insurance Costs

One frequently misunderstand feature of the health care law is cost-sharing. Put simply, if your income is low enough, you get federal money to offset the cost of health-insurance premiums, copayments and out-of-pocket expenses.

Your state health insurance exchange web or healthcare.gov will have up-to-date information on these programs.

You might think “No way I’ll qualify,” but don’t assume anything. Even a small break can mean you might choose a different, possibly cheaper, plan under health care law.

Since the subsidy calculation is part of your tax filing to the IRS, you might have a year in which your income falls dramatically, say, you lose your job or retire in the first months of the year.

If that happens, you can still be insured but might qualify for a cheaper plan, a bigger subsidy or both.

## Go Off the Exchange

If you don’t qualify for a break and don’t like the health care exchanges, consider buying one off the exchange directly from an insurance provider. Many states are still open markets and off-exchange plans can be cheaper and still qualify under the law, meaning you won’t be penalized by the IRS for using it.

This is especially important if you leave a job and decide to keep the company health plan. Under federal law (known as “COBRA”), you can stay with your former employer’s plan for up to 18 months.

The problem is, employers are not required to subsidize COBRA coverage, so the cost of keeping that insurance is often prohibitively high — 70% higher than just buying your own coverage. If you are a member of a union or professional organization, such as AARP, AWA, Writers Guild of America, you might be able to join a cheaper group plan through them.

## Use Your “Secret IRA” to Save

“But I make too much money!” you protest. OK, the government has you covered there, too. It’s called a health savings account (HSA), but high-earners sometimes call it their “secret IRA.”

That’s because an HSA works just like an IRA or a 529 college savings plan. You set aside money from your paycheck — pretax — up to a specific limit. The money can be invested, just like an IRA, and then used later tax-free for health care purposes.

It can’t be used to pay insurance premiums, but anything else. Doctor’s visits, hospital stays, medications — just about anything. The money rolls over year to year, so there’s no “use it or lose it” provision. The only requirement is that you have to have a high-deductible insurance plan to use an HSA.

The limits are generous, up to $6,900 per year for a family and another $1,000 a year if you are 55 or older. The money is pretax, so that reduction is taken at your highest level first.

It might even push you down into a lower tax bracket. Like with a 401(k), some employers will even match your contributions to an HSA. Free money!

## Tax Breaks Rule

Think of an HSA like this: If your tax bracket is 25% and you save $5,000 a year into the account, that’s $1,250 in tax savings every year. If you spend less than that seeing doctors, you come out ahead, and by even more if you invest the money you don’t spend now.

Get an HSA-eligible plan by December 1 and you can make a full deferral for that year. The deadline for the contribution is your normal tax deadline in April.

If you are self-employed, all you have to do is declare the contribution on your return. Remember, health insurance premiums are deductible if you are self-employed, too.

# 36 Easy, Legal Ways to Beat the IRS – and Save $3,250 or More!

Speaking of taxes, we now arrive at possibly the biggest offensive threat to your retirement. The IRS. But don't worry, we've got you covered with a solid playbook to deal with this particular monstrosity, so read on.

Arthur Godfrey, the beloved 1950s television host, had this to say about paying taxes: "I'm proud to pay taxes in the United States; the only thing is, I could be just as proud for half the money."

Amen to that! Everyone sees money leaving their paycheck and bank account around April 15, and no matter how small the amount, it hurts. Here's the thing, though: No matter how large or small your tax bill, it could be smaller. Maybe even half as much, and it's all entirely legal.

There are three main ways to cut your tax bill: lowering your income, taking deductions and credits or by changing your lifestyle. None of the ideas in this list are particularly complex or apply only to the rich. You can and should take these tax breaks. Applied properly, they can, in fact, cut your taxes in half.

The first important concept to grasp is how our progressive tax system works. People often say that they are in a "tax bracket," but what does that mean? It means they pay a percentage of their annual income in taxes, from as low as 10% of their income, up to 39.6%.

Most middle-class earners land squarely in the 25% bracket. If you earn $1, then you owe the government 25 cents. Crazy, right?

Except not really. Educated taxpayers understand that different tax rates are applied to different parts of their income. If you're in the 25% bracket and married, it means you pay 25% on your income above $78,075. But you pay 15% on the income amount below $78,070 down to $38,700, then even less below that.

That's why tax pros talk about "marginal" and "effective" tax rates. Marginal is the highest tax rate you pay, while effective is what really happens. It's not usual for a person with a marginal tax rate of 25% to really end up paying less in actual dollars.

Once you start figuring in exemptions, deductions, credits and so forth, it becomes entirely possible to turn your fairly large tax bill into something much more manageable and predictable — even cut your taxes owed in half! If your marginal tax rate is 25%, your effective rate could be 10% or less, if you plan and execute properly.

See, the federal government loves to tinker in our lives. It sounds like Big Brother, but consider their point of view: The more people have saved for retirement, invested in property and generally built up as long-term wealth, the less likely those folks are to need future government handouts to survive.

So Congress, in its erratic wisdom, rewards specific life choices. Make those choices well and there's no need to sign away so much of your hard-earned cash to the public purse. Keep it for yourself instead!

Here are 36 legal, easy-to-do tax strategies that apply to nearly everyone at some point in their life. They are arranged in broad categories based on how money is earned or by life stages. Read them all and make sure you get every cent left on the table by Uncle Sam.

## Cut Your Taxes Strategy No. 1:
## Save on Taxes by Filing Correctly

**1. Never file the "EZ" form.** The government offers the1040EZ to a single person or couple who earns less than $100,000, has no kids and has interest income of less than $1,500. If you thought, "Hey, that's me!" you're not alone. It's most people. The EZ form is incredibly short and simple. It's also highway robbery. If you have a student loan, you get no deduction on the interest. If you put money into an IRA, ditto. If you have a mortgage, that interest deduction disappears too. The EZ only makes sense if you have no college debt, no retirement plan, no kids, make very little money and rent. Otherwise, get a 1040 form instead. You need deductions to reduce taxes.

**2. Never get a refund.** People love the idea of a tax refund. It's like free money, a windfall. Nearly 80% of taxpayers get a refund after they file. Then they spend it on new mattresses, car down payments or a vacation. If you got a tiny refund, that's understandable; taxes are hard to predict in advance. If you got a big one, you missed a chance to cut your taxes by lowering your tax withholding (this is the W-4 form at work) and instead putting that money into a 401(k) or individual retirement account (IRA). It's a cliché, but it's true. You loaned the government money all year interest-free, then got taxed on that money for your trouble.

**3. Always itemize.** IRS tax-filing instruction books are long and frighteningly complex. It can be tempting to just take the "standard deduction" instead. Like with the EZ form, however, opting for simple will cost you money. You'll miss breaks on costs such as unreimbursed travel for your job, alimony payments and self employed health insurance premiums. You can get these deductions and others even if you don't fully itemize and use the simpler 1040A form instead.

**4. Count up kids, including older kids in school.** Besides the normal tax deduction for each child, you also qualify for a tax credit of $2,000 per kid, although the value of the credit begins to decline for couples with incomes over $400,000. The credit phases out after 16 years of age, but then education credits start to kick in, such as the American Opportunity Credit, worth up to $2,500 if you spend it on tuition, books, fees, supplies and equipment. Yes, you can deduct a new laptop computer.

**5. Caring for elders?** They're a tax break, too. If someone is a dependent, it doesn't matter if they're five or 75 years old or even that they live under your roof. Do you pay for more than half of their support? Did they earn less than $4,000? It doesn't even matter if you're related, so long as the person lived in your home and made almost no money. If the person doesn't live with you, then he or she must be a relative by blood or marriage. Every qualified dependent you claim reduces taxable income by $4,000.

**6. Hire a pro or go online.** Thanks to the internet, you can capture nearly all of these basic credits and deductions by filing through an online tax service such as TurboTax (turbotax.com), Tax Slayer (taxslayer.com) or H&R Block (hrblock.com). Answer some simple questions and file right from the same screen. If your taxes are complex or you just worry you won't get it done, a storefront tax service will find these breaks for you in no time.

## Cut Your Taxes Strategy No. 2: Save Taxes on Earnings

**7. Job hunt and moving costs.** If you're looking for a new gig in the same field, get a notebook and write down those miles. If you fly somewhere on your dime and stay in a hotel, eat meals, buy gas or new clothes, claim it. If you pay someone to spiff up your resume, print a batch of them up and spend money mailing them around, that too. Once you land the new gig, deduct the moving costs (and costs if you relocate for a company but don't get reimbursed). New graduates can't deduct first job search costs, but they can deduct moving expenses.

**8. Join your company 401(k).** This hugely important tool is great for reducing taxable income off the top year after year. You can save up to $18,500 a year pretax in a 401(k) plan. Remember those tax brackets? That $18,500 comes off the top, your highest tax rates first. If you make $92,900 and save the maximum, your taxable income falls to $74,400, and you knocked exactly $4,500 off your annual tax bill. Everything left in your pay packet is taxed at 15% and down from there with deductions and credits. If your employer matches you, typically up to the first 6%, that's tax-free income this year and the investment grows tax-free, too. You pay only later, in retirement, at your normal income tax rate then.

**9. Open two IRAs right now.** Got your 401(k) sorted? Great. Now open a traditional IRA and a Roth IRA immediately. You can always put money into an IRA, even if you have a workplace plan. The question is whether it's deductible, and that's a matter of your income level. (For couples, the deduction begins to fade after a modified adjusted gross income of $101,000. Pretty high.) If you have previous 401(k) plans, you can roll them over into the IRA to grow the balance and manage them more coherently. A Roth IRA is not taxdeductible and subject to an income test, but the growth is tax-free and withdrawals later are also tax-free, forever.

**10. Get a spousal IRA break.** If you're the sole breadwinner and your spouse is unemployed or underemployed, you can put money into his or her IRA up to the annual limit of $5,500 (add another $1,000 if your spouse is over 50). This money comes off your taxable income and pushes you even further down in the tax brackets.

**11. Childcare pretax and camps deductions.** Many employers will allow you to set aside money in your paycheck to pay for childcare. Because it's pretax, that's a valuable reduction in your income for an expense you were going to pay anyway, up to $3,000. You can also qualify for a childcare credit worth up to $6,000. If you do both, the childcare credit is still worth the difference ($1,000). Send your kids to sports camps? If they happen during your working hours, it's deductible.

**12. HSA or flex plan, stat.** The health care business is changing fast, and the tax laws are moving to keep up. Your workplace probably offers a flexible spending account (FSA), a health savings account (HSA) or both. The differences are important. A flex plan is common with HMOs and standard employer insurance and lets you set aside money pretax. Employers often match those funds, too. But you have to use it or lose it each year, so be sure to put aside an amount you will spend, such as predictable prescription costs. An HSA is coupled with a high-deductible health insurance plan. Families can set aside up to $6,900 a year, and the money rolls over each year. It can even be invested and is never taxed so long as you spend it on health care needs eventually.

| Maximizing Your Tax Savings | |
|---|---|
| Gross Pay | $90,000 |
| Initial Tax Bill | $19,800 |
| **Effective Tax Rate** | **22%** |
| 401(k) Contribution | $18,500 |
| Catch-up Contribution | $6,000 |
| Spousal IRA | $6,500 |
| Health Savings Account | $6,900 |
| Childcare or camps | $6,000 |
| Net Pay | $46,100 |
| Final Tax Bill | $5,532 |
| **New Effective Tax Rate** | **12%** |
| ***Difference*** | ***-72%*** |

If a couple filing jointly took every pre-tax break possible to the maximum, their combined tax bill would fall by 72%, and their tax-deferred savings for retirement would total $37,900 for the year. This is not counting personal exemptions and other common breaks that would drive their ultimate tax bill lower still.

## Cut Your Taxes Strategy No. 3: Save Taxes on Investments

**13. Be careful what you put in a tax-deferred account.** The point of investing in an IRA is to avoid the typical taxes from capital gains and dividend income. If you plan to buy and hold tax-free municipal bonds, do it in a taxable account instead. "Tax-efficient" mutual funds don't belong there, either, nor do variable annuities and master limited partnerships, both of which have features that reduce taxes. But anything that generates taxes — from rebalancing, capital gains or dividends not automatically reinvested — belongs in an IRA precisely to avoid unnecessary taxation.

**14. Reinvest dividends or use a DRIP.** Speaking of dividends, always reinvest them automatically. If you use an ETF or index funds, this is done for you. If you own mutual funds, make sure the same is happening. You can set dividends to reinvest automatically at your brokerage, but make sure they aren't being recognized as income first. If you own positions directly, see if the issuing company has a dividend reinvestment plan, or DRIP. These can be a very efficient way to avoid dividend income if you would reinvest the cash in any case.

| Your Income Tax Rate | Long-Term Capital Gains Rate | Short-Term Capital Gains Rate |
|---|---|---|
| **10%** | 0% | 10% |
| **15%** | 0% | 15% |
| **25%** | 15% | 25% |
| **28%** | 15% | 28% |
| **33%** | 15% | 33% |
| **35%** | 15% | 35% |
| **39.60%** | 20% | 39.60% |

The rate you pay on an investment gain is determined by your taxable income in the year you sell, and whether you held the stock for more or less than one year. Less than one year and you pay the short-term rate, equal to your income tax rate. Holding longer qualifies you for the lower long-term rate.

SOURCE: IRS

**15. Avoid short term, go long term.** This seems like it might go without saying, but avoid selling a stock sooner than 12 months. If you hold a stock for at least one year, it will be taxed at 0%, 15% or 20%, depending on your total taxable income. (For no reason other than "rich people can afford to pay more taxes.") If you sell before one year has passed, even by one day, you are taxed at your prevailing income tax rate on the gain, from 10% up to 37%. Of course, in an IRA, there are no taxes at all on gains.

**16. Harvest tax losses.** If you lose money on an investment, keep track of the loss. You can later "match up" losses against gains to find out your net gain (or loss) in a year. It's worth $3,000 per year in deductions of taxable income, and you can carry losses forward to future years if you have none to offset now. Naturally, you can't do this in an IRA, since there are no taxes to worry about.

**17. Use ETFs, not mutual funds.** In a taxable account, it's best to avoid mutual funds, since often they are notoriously taxinefficient. During the year, the managers of mutual funds can and will distribute cash to investors, which then becomes taxable income to you. Even if you reinvest dividends, you will be taxed. Exchange-traded funds (ETFs) are extremely tax efficient in comparison, and there is a wide variety of ETF versions of popular mutual funds.

**18. Borrow on margin rather than sell short-term.** Let's say you need cash (doesn't matter why) and want to sell an investment to generate that quick money. But all your investments are short-term and subject to a stiff tax hit. You can avoid the tax by borrowing on margin from your broker and giving him your stock as collateral. The risk here is that your stock loses value and the broker asks for the loan to be paid back. If you feel the risk is worthwhile, it's better to borrow than to take the up to 20% hit for short-term gains.

## Cut Your Taxes Strategy No. 4:
## Save Taxes Through Property

**19. Buy a home, but not for the tax break.** Yes, you get a break on mortgage interest, on points you paid for a mortgage, on mortgage insurance, on home equity loan interest, property taxes paid and even on second-home mortgage interest. You can even take a break for home improvements related to medical care. But don't buy a house for the tax break, and don't buy a bigger house for a bigger break. Buy the house that fits your budget and take every break you can.

**20. Rent your home out tax-free two weeks a year.** The IRS will tax your income from rental of your home just like income. However, you can rent it out at basically any price for up to 14 days and never file a single form on that income. If you know a big sports event is coming to town and it will drive hotel rates sky-high, rent out your house for whatever the market will bear — $10,000 a week if you want — and no taxes are due.

**21. Tax breaks on vacation homes.** The 14-day rule is inverted when it comes to vacation property you own. You can stay there for up to two weeks and still treat the house as a business for tax purposes and enjoy breaks on numerous costs, including insurance, maintenance, taxes, utilities, depreciation, even fees paid to property managers, so long as it is rented out at least 15 days a year. However, any day you stay there working to improve the house — painting a kitchen, for instance — does not count as a personal-use day, even if your kids spend the day running the beach, too.

**22. Live in a house at least two years to avoid capital gains.** For most people, money made by selling a house is tax-free capital gains as long as you live in it for at least two of the five years before the sale date. The reason it's "most people" is because the limit is $250,000 and for a couple, double that to $500,000. It's a rare home that appreciates by more than a half-million bucks, but it can happen. It's not unusual for some real estate speculators to buy a home, live in it for two years, rent it for three and then sell, just to avoid the taxes on the gain.

**23. Track improvements with good records.** If you make major improvements to your home — adding a pool, a garage or an in-law suite, for instance — you'll want to keep receipts that show the value of the improvement. That's because the capital gains on your home are taxable after $250,000, but the value of improvements are added to the cost basis of the house. It's a way to show you invested in the property and, thus, your gains weren't so great. Fixing ordinary things that break, however, generally are not considered improvements.

**24. Consider a 1031 Exchange.** If you end up investing in property (not your primary residence), taxes on gains can be stiff. Under IRS regulations, however, you can exchange one building, be it an apartment building, a commercial space or even a vacant lot, for another of the same kind and put off the taxes. So long as you managed the exchange correctly (there are firms that do this full-time), you can roll the gains into a new, larger investment and hold off the taxman.

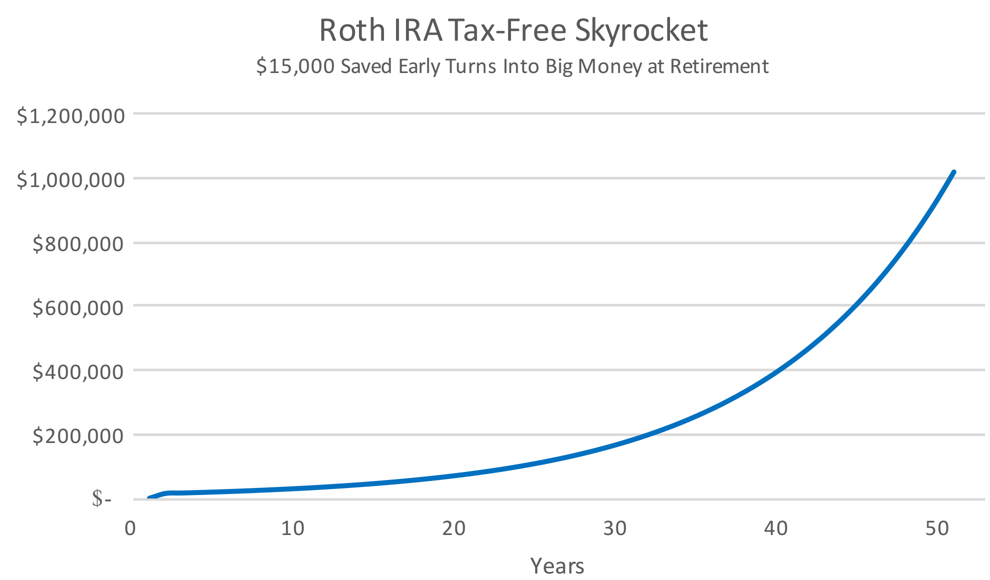
## Cut Your Taxes Strategy No. 5:
## Save Taxes Through Business

**25. Start a business, any business.** It's generally not a good idea to start a home business or part-time consulting gig for the tax breaks. On the other hand, the advantages are so many it's worthwhile to consider one. You can incorporate a sole proprietor LLC online through your state division of corporations, get a tax ID number and give it a whirl. Make cupcakes, write e-books, offer consulting services in your field — anything you think will work.

| How Much Can You Save in a Solo 401(k)? | |
|---|---|
| Gross Business Income (sole proprietor) | $140,000 |
| 401(k) Deferral (maximum) | $18,000 |
| Catch-up Contribution (over age 50) | $6,000 |
| Net Compensation | $116,000 |
| Profit-sharing Contribution (25% of Compensation) | $29,000 |
| Total Deferral (maximum) | $53,000 |
| Net Taxable Business Income | $87,000 |

In this illustration, a sole proprietor with a home consulting business maximizes deferrals using a solo 401(k), driving down his taxable income while maximizing his deferral into retirement savings.

**26. Home office breaks.** Chief among the immediate tax breaks for a home business is the use of part of your home as an office space. The big sticking point here is "exclusive use." Your office doesn't need a door. It can be a nook or your converted dining room. But you can't use the same space as a den or homework space, or you lose the break. Get that straight, and you can deduct a portion of your utilities, homeowners insurance, HOA fees and you can write part of your property taxes and mortgage interest off your business as expenses, reducing income taxes owed.




Just $5,000 a year for three years saved to a working teenager's Roth IRA can compound into more than $1 million by the time they retire — without adding one cent after the intial $15,000 contribution. And it's all tax-free, forever.

SOURCE: Banyan Hill

**27. Deduct health premiums.** If you had a job at a company, the company gets to deduct premiums it pays to provide you with health insurance. If you buy health insurance for yourself (and your family) and run a sole proprietor business (you are the employer and employee), you get that break instead.

**28. Deduct travel.** One of the great perks of running your own show is being able to deduct travel. It can't be travel for pleasure, of course. But that doesn't mean you can't enjoy your business trip. Meals, transportation, rental cars, lodging: They're all travel expenses you can deduct if you are meeting clients on the trip or otherwise working on behalf of your business..

**29. Hire your kids.** If you run a small business and need a receptionist, go ahead and hire one of your kids. Put them to work with data entry or packing products. You have to pay them reasonable wages (and yes, you have to pay them), but also deduct those wages against the business, thus moving that taxable income to your nontaxable child. If they are under 18, they are exempt from Social Security taxes, too.

**30. Open a "solo" 401(k).** This is by far the biggest and easiest way to slash your income and defer taxes until retirement. A "solo" or personal 401(k) works just like a normal workplace 401(k) plan. You can set $18,500 pretax but, in addition, you can defer 25% of your net income as well, up to the IRS limit of $55,000 per year. Basically, if you can be disciplined about saving, you decide what taxes you care to pay year in and year out.

## Cut Your Taxes Strategy No. 6:
## Save Taxes by Giving

**31. "Stretch" an inherited 401(k) or IRA.** If you are due to inherit an IRA from someone not your spouse (a parent, for instance), be very careful about how you take control of the money after the passing of your loved one. If your IRA provider allows it, look into a "stretch" IRA that recalculates required minimum distributions based on the life expectancy of the inheritor. More years means smaller distributions, leaving money to compound for many years more, tax-deferred.

**32. Gift assets, not cash.** Never sell a taxable investment and write a check when you can give away the investment instead. Your kids almost certainly will pay a lower capital-gains rate on the investment, since the rate is based on the income of the holder. Or they can choose to hold the investment and reinvest dividends.

**33. Fund a child's Roth IRA.** It's not a tax break for you, but oh, what a way to stiff Uncle Sam. If you have a child or grandchild who earns money from babysitting or bagging groceries, set them up a Roth IRA. He or she can put up to $5,000 into a Roth. They can spend the money they earn or put it toward college expenses or whatever they need. You just add money to their Roth in their name. Then it compounds, hopefully for 50 years. You could turn $15,000 over three summers into $1 million by retirement, and it all comes out tax-free for them, long after you're gone.

**34. Gifts to spouse and kids.** If you have cash to give, remember that you can write checks of up to $15,000 per year to anyone gift-tax free ($28,000 for couples). It doesn't count against your lifetime exclusion of $5.4 million (double that for a couple). You would do this if you had incoming dividends and no strong reason to reinvest them, but plenty of reasons to support children in financial need.

**35. Pay tuition and medical bills directly.** In addition to the $15,000 gift-tax exclusion, you can also pay tuition or medical bills directly, and it doesn't count against the lifetime exclusion or your annual gift limit.

The hitch here is that you have to pay the bill directly. It can't be a reimbursement to a child's parents, for instance.

**36. Give away your RMDs.** When you hit 70 1/2, the government will expect you to begin taking out a percentage of your IRA savings, which will be taxed at your income-tax rate, whatever it is. This is called your "required minimum distribution" or RMD. But you can give away that money, tax-free, to a charity. You don't get a charitable deduction, but you do get to hold down your taxable income for the year. That keeps you from creeping upward into a higher bracket, and possibly helps you avoid Medicare surcharges on high-income retirees.

## Final Words

If you've read this report carefully, you'll see exactly what I meant when I talked at the beginning about the importance having a strong retirement defense. You want a defense that raises the floor of your investment, lowers your health care costs and fights back against the IRS's cash grab in your most vulnerable years. Watching for fees and conflicts of interest and minimizing taxes while building on the strength of income flow is the key to coming out way ahead down the road.

We all have to pay taxes. But we should also take advantage of existing laws and tax codes to make sure we pay only what's legally required. You worked hard for your money, for the benefit of your spouse, your family and yourself. So why avoid taking advantage of the various strategies you're allowed by the law, in order to keep as much as possible?

Keep this report close at hand. Read it again. And get started on your retirement defense plan so you can keep more of your earnings, cut health care costs and keep your assets legally out of Uncle Sam's hands.

Regards,

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