5 Ways to Plug The Holes In Your Wealth Bucket

Most Investors Have A One-track Mind

Most investors have a one-track mind when it comes to their investments. Return! Return! Return! They focus on how much return they can expect to get and overlook other things that are just as important. Returns are great. But focusing only on returns blinds them to other important issues that could siphon money out of their accounts every year, whether returns are good or bad.

Think of all your money as being in a **bucket**.

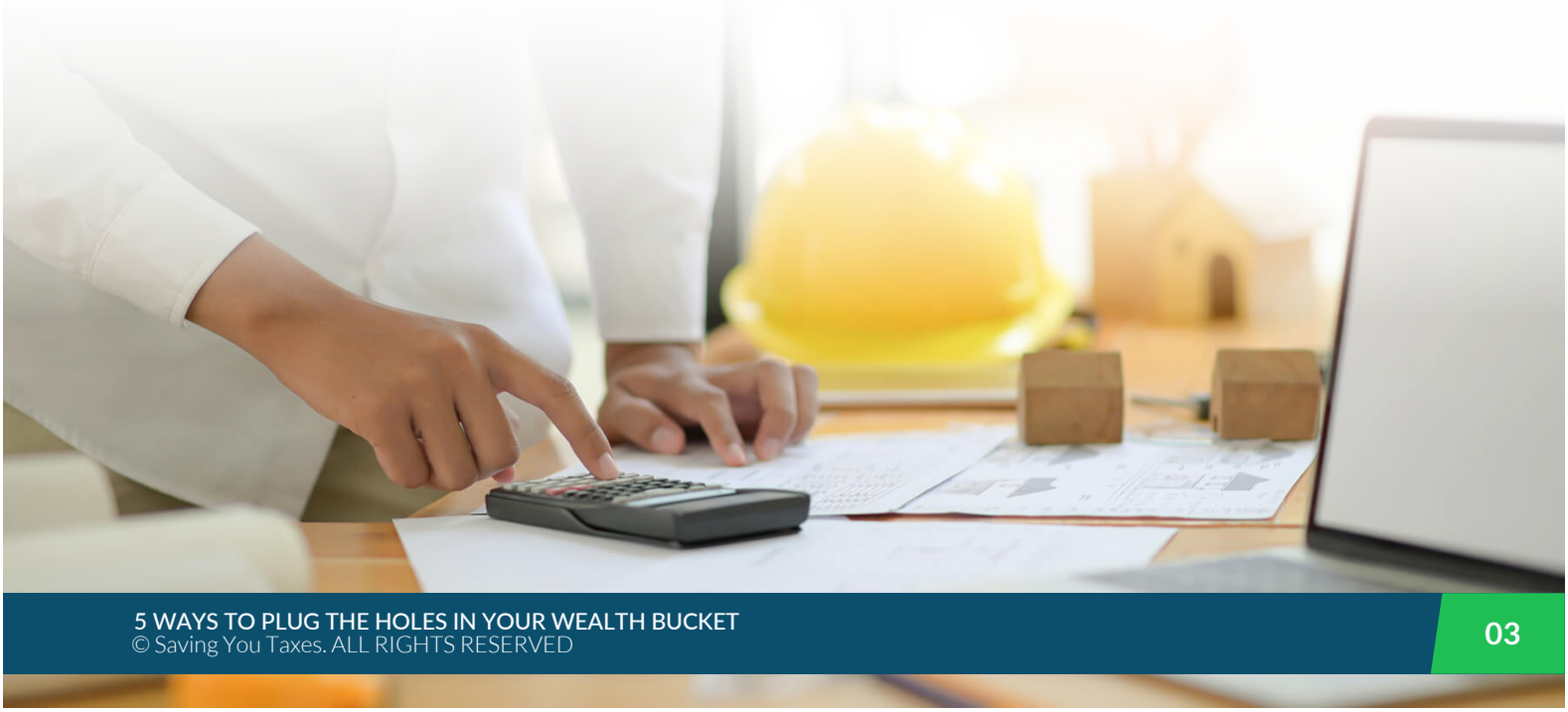
That bucket holds all your financial assets and what's in the bucket increases by the interest and earnings on your investments. When you put more money in the bucket - like with a 401k or IRA contribution - the amount in the bucket grows. And, when the money is invested - in stocks, bonds, mutual funds, and the like - the amount in the bucket grows.

Where we make our mistake is when we focus only on increasing the growth in the bucket, while ignoring the things that create loss. What did Ben Franklin say, "A penny **saved** is a penny earned?" So this paper is about **eliminating losses from your bucket,** first. Then, focusing on returns.

Every Company Likes To Argue That They Have A Better Way To Fill The Bucket

Now imagine for a moment that over your bucket is a faucet. The faucet fills the bucket. In everyday life, you turn the faucet on and it fills the bucket with water. But with a bucket of money, the faucet represents the investments that are paying dividends and interest and growing your money through earnings. In the financial services industry, every company likes to argue that they have a better faucet: a superior way to fill the bucket. But that's really not true. In any given year, one company may be the best at filling the bucket, and the next year they may be the worst. No company is consistently the top performer at filling the bucket. So running from company to company, buying-what-they-are-selling is fruitless. You make investment decisions based on how the company did last year, only to have a totally different experience this year - after you've invested. That's like driving your car down the road looking in the rearview mirror. Most people can't drive very fast, very far, for very long looking in the rearview mirror. Instead, you need to look ahead through the front windshield and the curves in the road in front of you.

The first thing to look at - instead of at returns (or faucets) - is the condition of the bucket itself. If you look closely, you might find that the bucket holding your money has holes in it that allow some of your returns to leak out. Those holes represent taxes, interest on loans, investment fees, market risk, and medical expenses. What you need to do is focus on strategically plugging those holes. Then, when you go to fill the bucket, it will keep the returns you earn, instead of allowing them to drain through.



Here is a closer look at the **FIVE KEY FACTORS** that can drain investor portfolios and how to address to them:

Hole #1 Tax Leakage

Think tax leakage. Your bucket has a big hole in it, and your money is leaking out in the form of taxes that you are paying, and will pay in the future.

Before we explain, please answer this question: Do you think in the future, say 15 years from now, taxes will be about the same as they are now, or will they be higher or lower? Go ahead. What do you think the future is likely to hold?

The next tax increase in the U.S. is already on the books. Congress doesn't have to do anything - not even vote - and your taxes are set to increase in 2026. That's because the cuts that went into effect in 2018 as part of the Tax Cuts and Jobs Act of 2017 are scheduled to sunset in 2026. A tax hike is coming. It's one that many business owners aren't planning for today because many advisors aren't broaching the subject with clients.

Not only that, but the Congressional Budget Office (CBO) believes that eventually there will be just three tax brackets, down from seven today. Under that scenario, the bottom, middle, and top tax would be **25%, 63% and 88%**, respectively. Currently, the lowest and highest tax rates are 10% and 37%.

The country's former CPA-in-Chief, David Walker, head of the GAO (Government Accountability Office says…. ***additional debt is essentially just a deferred tax increase. "There's simply no way to handle our ever-mounting debt burdens except by doubling taxes over time."***

There is no doubt that tax hikes of this nature blow a big hole in the wealth bucket for business owners and retirees. A hole that drains money from your bucket at the same time you are trying to fill it up.

Don't hide your head in the sand. Higher taxes are coming, and they'll increase the leakage of money from your bucket unless you plug the hole. An Enrolled Agent (EA) Tax Strategist can help. They're the only profession that has specific tax code training from the Internal Revenue Service. Many CPAs, who are experts in accounting, look to EAs as the experts in tax. Like attorneys and CPAs, EAs can represent taxpayers before the IRS if needed, and **they can help you develop tax strategies that will close the tax hole in your money bucket.**

While accountants often help you prepare income tax returns using government forms, they generally don't forecast future taxes and strategize on how to minimize them. They record what happened last year. Enrolled Agent Tax Strategists evaluate your past returns and your current situation to analyze and recommend tax strategies that may be best for you. Importantly, these are proven strategies that are already written into the IRS Code. If you implement those strategies, they will reduce your income taxes.

Bottom line:
When it comes to money, if you don't get the taxes right, nothing else really matters.

Hole #2 Debt Drains

The second thing that can impact your ability to fill your bucket is debt. At the end of 2019, the average American household had nearly $138,000 in debt, defined as auto loans, credit cards, mortgages and student loans. Business owners often owe many times that much.

Debts are so high that many people enter retirement with unpaid college loans that are 30 or 40 years old. By paying the principal and the interest on these loans off so slowly, they're paying thousands of extra dollars in interest charges. The lost investment opportunity cost is substantial and extends well beyond monthly payments. Servicing all that debt means that 97% of the money that they earned has slipped through their hands.

Payments on all this debt – money that's being directed toward banks and lending companies – is what prevents many people from being able to save. Indeed, by the time an average person reaches age 65, they will have earned $2 million. Yet they will only have about $63,000 in their 401(k) or retirement savings account. Business owners aren't much better. They often have all their wealth tied up in the business - illiquid so they can't use it, with very little actually saved in personal accounts in their name.

To prevent debt from draining your bucket, it's essential to pay down debt as quickly as possible. One way to do this is by setting up a family bank and attacking debt aggressively with the same money you are already spending - only in different ways. Here's an example…a medical professional with over $600,000 in debt was scheduled to pay it off over 29 years. Still, without taking anything from his lifestyle and by redirecting how he was paying off those debts, he was able to eliminate all the debt in 7 years. Then, he would have $8,000 per month he could plow into his retirement accounts.

If you keep doing what you are doing - making those monthly payments - the interest cost of your debt will be a hole in your wealth bucket that will leak out hundreds of thousands of dollars (maybe even millions) that could have been saved for your and your family.

Bottom line:
Debt can be eliminated more quickly than you ever imagined.

Hole #3 High Fees

You know you have to pay fees. That's how financial planning firms and investment companies keep the lights on, the toilets flushing and the phone answered. But you should know what fees you are paying. They should be clearly and fully disclosed.

Typically, professional planners will charge a one-time, flat fee of $1,500 to $10,000 for the creation of a financial plan. The advisor who manages assets in that plan will charge 1% to 2% of assets under management for ongoing, active management. The company that builds the investments the advisor uses will then charge another 1% to 2% in costs that are often hidden from investors. When they are all totalled up, many investors are paying 3-5% in annual fees, but they don't know it. Those fees can reduce the value of your account over time by as much as 50%.

"Imagine you have $100,000 invested. If the account earned 6% a year for the next 25 years and had no costs or fees, you'd end up with about $430,000. If, on the other hand, you paid 2% a year in costs, after 25 years, you'd only have about $260,000," according to Vanguard. "That's right: The 2% you paid every year would wipe out almost 40% of your final account value. Two percent doesn't sound so small anymore, does it?"

It's essential that you know how big the fee hole is in your wealth bucket. Making that hole as small as possible reduces the amount of return your investments must produce for you to retire successfully.

Bottom line:

High fees can be a serious drain on your wealth bucket. Know the fees you are paying!

Hole #4 Market Risk

Market risk is another hole that drains money from your bucket. Risk is divided into two categories: specific risk and systematic risk.

Specific risk is associated with one investment or one company. The company may have a crisis with a product that causes the company stock to go down in value, or can even cause the company to go bankrupt. That's a specific risk associated with one company.

Systematic risk is when an entire economic system falls or even collapses, to events that are broadspread. The Great Recession of 2008 and the Coronavirus Pandemic of 2020 are examples of systematic risk.

Going back to the start of this century, the S&P 500 lost half its value between 2000 and 2002 due to the tech bubble, 9/11 terrorist attacks and subsequent reaction to those events. It took until 2007 for that capital to be recouped. Then along came the global financial crisis in 2008. The market bottomed in March 2009, and it took until 2013 for those losses to be erased.

Said another way, for the 14 years spanning 2000 to 2013, many portfolios were flat. Think about that in the following terms: How old will you be in 14 years? How many 14-year periods do you have left to wait out a return from a market downturn?

While a 14-year period of flat results may not matter much to a 30-year-old with a long time horizon, it could be a significant setback for a 55-year-old who is only a decade away from retiring. Having a plan to protect the money in your bucket from specific risk and systematic risk is critical to closing the hole in your bucket that unnecessarily leaks money from your personal wealth and wastes it, so it is unavailable for your future.

Bottom line:
Minimizing market risk will help you keep more money in your bucket.

Hole #5 Healthcare

The cost of healthcare is soaring and will only get worse. In 2018 the average American spent over $5,000 on medical expenses. Meanwhile, health insurance premiums have increased by 740% since 1984.

However, the healthcare cost that is going to continue increasing, and which will financially destroy most Americans in their retirement years is long-term care. **Seventy percent of Americans will need long-term care**. Anecdotal evidence indicates that the cost can be as high as **$10,000 per month**. A study by Genworth says this cost is increasing by **three times the rate of inflation**.

"An average retired couple age 65 in 2019 may need approximately $285,000 saved (after tax) to cover health care expenses in retirement," according to the **Fidelity Retiree Health Care Cost Estimate.**

But some strategies can lessen the blow of healthcare costs. Those still in the workforce can make use of a health savings account (HSA). This allows them to save pre-tax income (and take advantage of any potential employer contributions) to grow their capital and withdraw it tax-free at a later date to help cover the cost of specified medical expenses.

For those close to, or in, retirement, Medicare kicks in at age 65. It's possible to claim Social Security 3 years before that. In some cases, it may be advisable to wait until age 70 to tap Social Security to receive higher benefits. The extra years of work can also provide more capital that can be allocated to investments, HSAs and long-term care.

The new Private Insured Retirement Advantage Accounts (pIRAa) allow you to set money aside for long-term care. But unlike traditional LTC insurance, where you lose it if you don't use it, these accounts create an increasing pool of money that can be used tax-free for long-term care. If you never need it, it doesn't go away. Instead, you can leave it to your heirs as a substantial wealth transfer to those you love - again, tax-free.

Bottom line:
If you have the right strategy, you can close the healthcare hole in your wealth bucket.

How to Fix the Holes in Your Wealth Bucket once and for all?

You've likely seen something in these pages that caused you to say, "Yep, that's me," as you realized these holes are present in the bucket that holds your money.

Now that you have more information about the things that can cause your wealth bucket to slowly leak out your hard-earned money, you can ask the right questions to yourself and the people involved in your finances. But as Michael Hyatt says, "Never leave the scene of clarity without taking action." So, the question you should be asking yourself **right now** is, "what am I going to do about what I've just learnt?

The Law of Diminishing Intent says, "The longer you wait to take action, the less likely you are to take action."

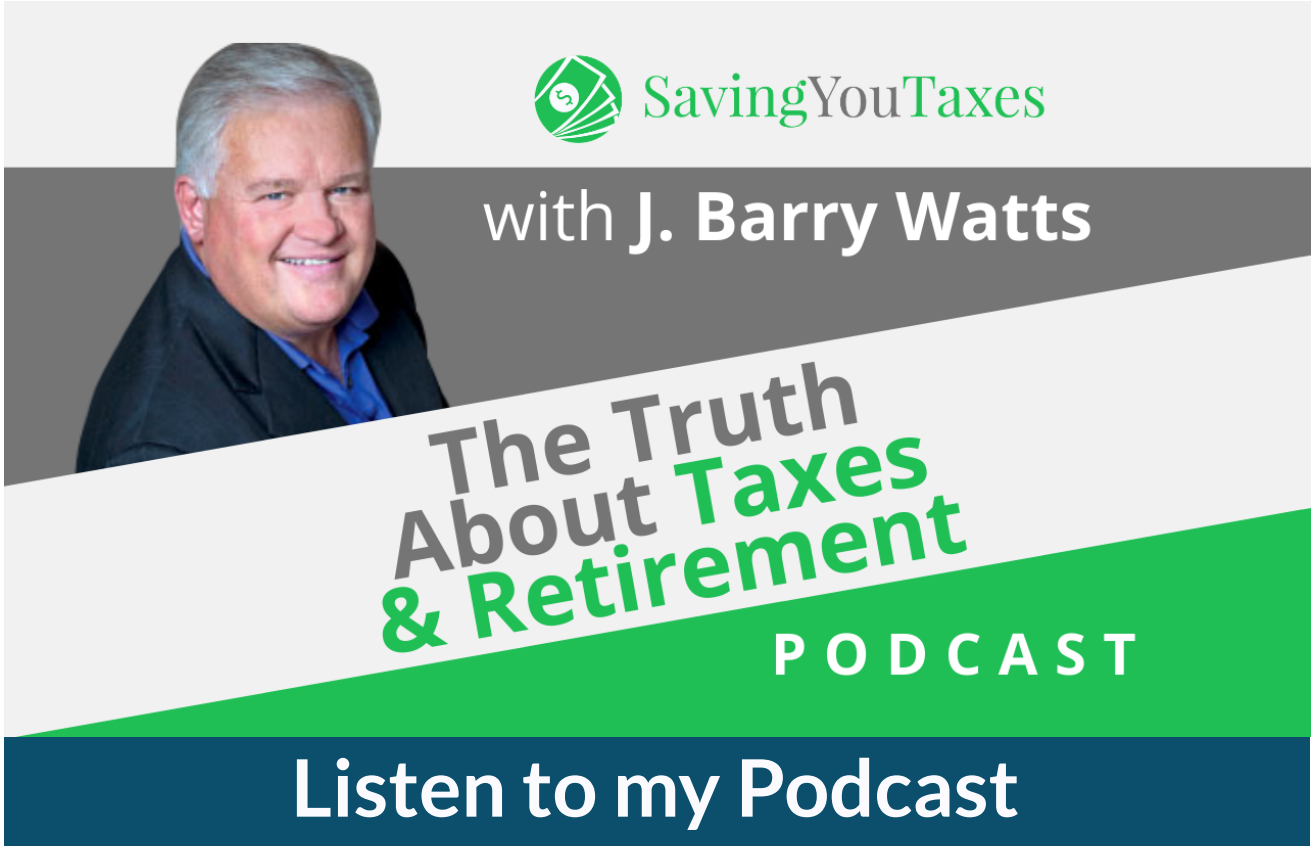
If you've gotten even a hint of clarity, you must take action today. Find a tax-strategist who specializes in helping business owners and retirees plug holes in their bucket of money, and **start plugging the holes in your bucket today!**

Bottom line:
Take action today and secure your tomorrow.

At SavingYouTaxes

We work with business owners and retirees to develop strategies that will reduce income taxes, eliminate debt more quickly, lower fees, minimize market loss, and provide for long-term care for no additional cost.

We work with you to seal up the holes that are leaking money from your bucket and help you retain that money to create a bigger and fuller bucket for the future you have dreamed of.



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