

Retiring? Make the most of it with few simple tips



Q: I'm planning to retire next year, and I'm scared to death. How am I going to know how, when and where to take withdrawals from my accounts?

A: You've worked hard for decades and it's time to enjoy the freedom of retirement. Feel good and know that you are in good company because it's very difficult to switch from saving to withdrawing. We are the first generation that has to figure this out. Until recently private sector employees worked until they didn't and then received a pension check. Now most employees are told to create their own income plan.

Start by listing expenses, and don't forget the extraordinary expenses that are neither monthly nor annual. Roofs, cars and appliances get repaired and replaced. Life events like weddings and anniversary celebrations must be included.

Once the list is complete, compile all liabilities and assets.

Cash in banks, savings and Roth IRA accounts are 'after tax' while cash in annuities, 401K and Traditional IRA accounts are 'pre-tax'. There's a big difference when withdrawals come with a tax cost of ~22%.

Decide if there is enough savings to create a healthy and happy paycheck and whether it's likely that there will be money left for

heirs. This requires marginal income tax planning for monthly payments from annuities, IRAs and 401K accounts because these distributions will be taxed as ordinary income. Calculate another monthly payment from the 'after tax' investments that are sold and taxed at the preferred capital gains rate. Since the goal is to save tax, this is an important strategy. Don't waste the lower marginal tax rates.

Consider federal income taxes on Social Security benefits. SS income is means tested. Based on adjusted gross income plus tax-free interest (muni bonds) plus 50% of the SS benefit, either 15%, 50% or 85% of SS income will be taxed at the highest marginal rate.

Calculate the tax prior to deciding when to take the Social Security benefit. It's the highest benefit amount when postponed to age 70 and the lowest when taken at age 62. Consider health and personal circumstances because 'some date in between' may be the better choice.

Medicare premiums are another means tested benefit and increase with income, giving us yet another reason to manage marginal rates when taking withdrawals.

Required minimum distributions have recently been postponed until age 72, so carefully planning distributions during 'low or no' income tax years is another good strategy.

Real estate may be a cheap and easy source of tax-free money at current low interest rates when there is equity in a home or rental property. Although the standard

deduction is high and reduces the attractiveness of primary residence debt, rental property is reported on a Schedule E allowing an interest deduction. Sometimes it's okay to leave heirs real estate encumbered by a mortgage.

There's also the sure thing option of giving savings to an insurance company in return for an irrevocable commitment to receive a defined payment (in the form of an annuity) until death - hopefully, not the next day.

Public sector employees who are fortunate to have pensions also have payment options that are critical to dependents. There's likely to be a change in lifestyle when the survivor pension is only 50%. Or worse yet, zero. Actuarial tables are good for insurance companies, but not for families when reality strikes.

So many choices, and all very personal to our goals.

Start with income and expenses, debt and assets. Decide on the withdrawal needed for the well-deserved retirement. Consider dependents and get to work on the tax implications of the different accounts. Once the plan is complete the fear will subside. It's only math.

Mary Baldwin, CFP® is an independent, fee-only financial planner at Baldwin and Associates, located in Indian Harbour Beach, FL. You can contact her at 321-428-4555 or Mary@MEBaldwin.com. Send your financial questions to Business@floridatoday.com.