AGILE “I” Phase Implement the Plan

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A BLUESPRING WEALTH PARTNER

Agenda

- What is the “I” phase of retirement?
- What makes a good plan?
- Social Security & Medicare
- Employer Plans
- Creating your retirement paycheck
- Managing taxes

I

IMPLEMENT THE PLAN

1 year before retirement – 1 year into retirement

Transition to financial independence and fine-tune your plan to prepare for post-retirement taxes and healthcare.

Prepare mentally

This is a major life transition. We help you plan out how you will spend your time when you no longer are going to work. Most people need something to look forward to in order to remain in good spirits. Human beings need human interaction. It is important for people in this phase to maintain or develop friendships outside of work with others who have similar interests.

Finalize your post-retirement healthcare plan

Is there a healthcare plan from your employer? COBRA (Consolidated Omnibus Budget Reconciliation Act) coverage can extend your health insurance for 18 months after you retire. Medicare coverage may be best if you retire at age 65. Private coverage, the government's healthcare exchange, or coverage through a spouse who is still working may be other options to consider. We work with our clients to choose the right healthcare coverage option assuring the premium payments are accounted for in their cash flow projections.

Social Security benefits

Maximizing Social Security benefits is an essential part of nearly everyone's retirement plans. Our analysis can help to determine the optimal time to start benefits. Maximization strategies focus on the age to draw benefits and the sequence of who draws first when dealing with married or divorced couples. The objective is to get the most dollars from Social Security during your retirement. We help our client consider the critical issues before making this decision.

Understand your retirement paycheck

If you have a pension, it's time to verify the details. When are you eligible? Is there a discount for drawing before age 65? It is important to understand the implications of each option to make a wise choice. Social Security is another major decision that must be done right. We run a Social Security optimization for each client to help determine the time to begin benefits in order to maximize benefits. Withdrawals from the investment portfolio can be used to supplement these sources based on cash flow projections. Remember, you may spend as many years in retirement as you did when working. Making smart choices now can help make your income last.

Spending

We help clients to create a retirement spending plan and then ask them to live on it the year before retirement. Spending is just as important as saving when it comes to retirement. We prepare tax projections for clients to compare the last year of wages with the first year of retirement income. In retirement, taxes can be withheld from income sources like pensions and Social Security or paid quarterly through estimated tax payments. Our projections consider a client's tax liability for several years after retirement.

The Importance of Transition

- Retirement is a major life milestone, marking the shift from earning a paycheck to relying on your personal savings and retirement benefits.
- This period involves crucial decisions that impact your long-term financial security and lifestyle.
- Like all other major life decisions, it should be taken seriously (i.e. marriage, career, children, education, etc.)

Final Year of Work

- The last year of employment is a time to prepare—financially, emotionally, and logistically.
- Review your retirement accounts, benefits and personal goals/needs
- Make sure to create an exit plan with your current employer or business
- Begin planning for the changes in daily routine and social interactions. Start early, the earlier the better.

The First Year of Retirement

- The first year after leaving work is a significant adjustment.
- Establish new routines and find meaningful activities. (Volunteering, Family Time, Part-Time Work, Travel)
- Monitor your spending and income to ensure your plan is on track. This is of utmost importance at the beginning of your retirement.

Flexibility

- Flexibility is key and can be an asset for you.
- Life in general is not linear, neither is retirement. Ensure that your plan and schedule have flexibility built in.
- Be prepared to adapt.

Major Decisions

- Starting Social Security & Medicare
- Pension Choices
- Retiree Health benefits
- Retirement home or age in place
- Make sure you are consulting with professionals you trust

What makes a good plan?

- Balance and Flexibility.
  - A strong plan balances financial security with personal happiness.
  - Plan for the fun and not fun.
- Knowing your budget.
- Having a safety buffer for the unforeseen.
  - Ask yourself what you will do if you or your spouse need nursing care.
- Plan for giving back to your community or family through time and/or resources.

What makes a good plan? Cont.

- Tax efficiency - this can up to 7.5 years to the longevity of your portfolio*
- Planning for health insurance, especially before Medicare eligibility.

*"Retire Right: The Critical Importance of Tax-Efficient Withdrawal Strategies to Portfolio Longevity" – William Reichenstein, Ph.D.

Social Security Benefits

- Social Security plays a critical role in retirement security, serving as the primary income stream for most retirees.
- For more than half of the beneficiaries, it accounts for the majority of retirement income.
- Filing is largely a permanent decision, though there is a one-time 12-month window to withdraw your application if your situation changes significantly, but you must repay all benefits received.
- Could be taxable.
- Must start taking at age of 70 but can take as early as 62 or earlier in rare cases.
- Can be started before and after filing for Medicare.

Understanding your Social Security

- This should be done before retirement or before filing for your benefits.
- Create a secure online account at SSA.gov for easy access.
- Review your annual benefit statement to track your earnings record and projected benefits.
  - The numbers should line up with your W-2s.
  - If you are a business owner, this becomes more difficult but is also more important to double check and verify.
- Correct any errors early to avoid future benefit issues.
- Benefits are based on your highest 35 years of earnings.
- Years with no earnings count as zero, which can lower your average.
- Delaying benefits increases your monthly payment, while early claims reduce them.

Claiming Early vs. Delaying

- Claiming before full retirement age (FRA) results in a permanent reduction.
- Waiting until after FRA increases your benefit by up to 8% per year (until age 70).
- Consider your health, life expectancy, and financial needs when choosing when to start.
- Delaying will result in a higher monthly benefit but will also take many years to recoup the benefits you could have earned by filing earlier.
- It's important to choose what's right for you, not what your friends/family did.

Spousal, Survivor & Divorce

- You may claim a benefit based on your own record or up to 50% of your spouse's benefit, whichever is higher.
- Spousal benefits are only available if the higher earner has started collecting.
- Survivor benefits are available to widows/widowers after at least nine months of marriage (exceptions apply).
- Divorced individuals may claim spousal benefits if the marriage lasted at least 10 years and they haven't remarried.

Medicare 101 – The Basics

- Medicare eligibility begins at age 65.
  - You can still work full-time and be on Medicare. Most of the time your Employers Insurance will remain the primary insurance.
- Understand the different parts: Part A (hospital), Part B (medical), Part D (prescription drugs), and Medicare Advantage.
- Plan for potential gaps in coverage and out-of-pocket costs.

Health Insurance Pre-65

- If you retire before age 65, you'll need to secure health insurance until Medicare begins.
- Options include COBRA, private insurance, or coverage through a spouse's plan.
- Compare costs and benefits carefully, and ensure you understand your Modified Adjusted Gross Income level which determines your eligibility for subsidies.

Handling your Employer Plan

- Upon retirement, you may choose between a monthly annuity or a lump sum payout.
- Annuity: Provides guaranteed income for life but may be lower if you retire early.
    - Not indexed for inflation
    - Limited Flexibility
    - Typically, spouses are only allowed to be beneficiaries
- Lump sum: Allows you to roll funds into an IRA for more control and flexibility.
    - Greater control over investments
    - Can be left to spouses, children, grandchildren, etc.
    - Must be managed

Lump Sum vs. Annuity – Making the Choice

- Consider your health, life expectancy, spending needs, and family situation.
  - Some annuitization options can be more attractive than the lump sum options and vice versa.
- When choosing to annuitize, figure out when and how the first monthly payment will be paid to you.
- Consult with a financial planner to determine the best option for your circumstances.

Rollover Rules & Best Practices

- Rolling over your lump sum to an IRA avoids mandatory 20% tax withholding that employer plans are subject to.
  - This makes rolling over an old employer plan attractive.
- Only one 60-day rollover is allowed per year across all IRAs.
  - Complete the rollover within 60 days to avoid taxes and penalties.
- The safest way to move retirement funds is a direct transfer between financial institutions.
  - This method avoids tax complications and ensures your money stays tax-deferred.
- Spousal consent may be required to move pension funds out of an employer plan.
- If you have company stock, explore Net Unrealized Appreciation (NUA) strategies for potential tax savings.

Creating the Retirement Paycheck

- Replacing your work paycheck is a top priority.
- Combine Social Security, pensions, and withdrawals from personal savings/investments to create reliable income.
  - Know what days of the month those paychecks are coming in and plan accordingly.
  - Pensions pay 1^{st} of the month mostly
  - Social Security pay dates are based upon your date of birth.
- Plan for inflation and unexpected expenses.

Retirement Paycheck Recommendations

- Keep a cash reserve that you can access immediately
  - This is typically 3-6 months of living expenses.
- Plan for larger purchases (Car, Home Repairs, Etc.) at least 12 months out
  - Use funds in the most tax efficient way to reduce the overall cost of expenses.
- Safeguard as much of your personal investments from a reduction in purchasing power as you can
  - This means to have personal investments that keep up or beat inflation over the long term.
- Review your plan at least annually and make adjustments as necessary.

Managing Taxes During Retirement

- Retirement income is often taxed differently than wages.
  - You will be responsible for making sure the appropriate amount of taxes are paid to the IRS and your state.
    - You will need to choose withholding amounts and/or send in quarterly estimates
- Withdrawals from traditional IRAs and 401(k)s are generally taxable.
  - Roth IRA withdrawals are tax-free if rules are met.
- Plan withdrawals to minimize your tax bracket.
- Consider converting some savings to a Roth IRA before or during retirement.
- Work on creating a tax-efficient withdrawal strategy to lengthen the longevity of your investments.

Conclusion – Successful Transition

- Retirement is a journey, an AGILE journey, that requires careful planning and flexibility.
- Make informed decisions about Social Security, employer plans, income, health care, and taxes.
  - Stay proactive and seek professional guidance to enjoy a secure and fulfilling retirement.
- Review your plan regularly.

Upcoming Seminars

Pulse of the Market

Thursday, July 31st, 2025

11:00 AM

Medicare Open Enrollment

Thursday, August 28th, 2025

11:00 AM

Thank You!

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