

Are You About to Retire?

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Agenda

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



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 5 Years That Can Shape the Next 30 Years

Most people spend decades building wealth, but many important decisions are made during the few years immediately before and after retirement. These decisions can have a lasting effect on retirement income, taxes, healthcare coverage, and financial flexibility.

- Social Security decisions
- Medicare decisions
- Pension elections
- Tax planning
- Retirement income planning



Common Mistakes During the Final Year Before Retirement

- Not reviewing Social Security options
- Ignoring the potential tax consequences of retirement decisions
- Underestimating healthcare and long-term care costs
- Making pension elections too quickly
- Keeping too much cash or investing without considering inflation, liquidity needs, and risk tolerance



The Five Biggest Retirement Risks



Flexibility

- Flexibility can be one of the most valuable features of a retirement plan.
- Life does not always follow a straight path, and neither does retirement.
- Build flexibility into both your financial plan and your retirement schedule.
- Be prepared to review and adjust the plan as circumstances change.



Decisions That May Be Difficult or Costly To Change

- Social Security filing decisions
- Pension elections
- Medicare enrollment and coverage choice
- Large or poorly timed retirement account withdrawals
- Roth conversions after they are completed



What Makes a Good Retirement Plan?

What Can Retirement Confidence Look Like?

- Knowing where your income will come from
- Knowing how much you may be able to spend
- Understanding how taxes may affect you
- Knowing how your healthcare needs may be covered
- Knowing how the plan could affect a spouse or other family members



What makes a good plan? Cont.

- Tax efficiency – In one published analysis, a tax-efficient withdrawal strategy extended portfolio longevity by as much as 7.5 years under the study's specific assumptions.*
- Planning for health insurance, especially before Medicare eligibility.
- Coordinating investments, taxes, and income instead of managing them separately.



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

Social Security's Role In Your Retirement Plan

- Provides a monthly benefit for life
- Includes annual cost-of-living adjustments
- May be an important source of retirement income
- Can affect the income available to surviving spouse
- Should be coordinated with pensions, investment, taxes, and other income sources



Understanding the Social Security Filing Timeline

- Retirement benefits may begin as early as age 62
- Filing before full retirement age typically reduces your month benefit
- Delaying after full retirement age typically increases your monthly benefit until age 70
- Delayed retirement credits stop at age 70
- Social Security and Medicare have separate enrollment decisions.
- Depending on your income, a portion of your benefits may be subject to federal income tax.

Understanding your Social Security

- This should be done before retirement or before filing for benefits.
- Create a secure online account at [SSA.gov](https://ssa.gov) for convenient access.
- Review your annual benefit statement to track your earnings record and projected benefits.
 - Compare your earnings history with your tax records and W-2s, and report possible discrepancies to the Social Security Administration.
 - If you are a business owner, review both wage and self employment earnings.
- 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 calculation.
- 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 in the monthly retirement benefit.
- Waiting until after FRA may increase your benefit by up to 8% per year for individuals born in 1943 or later (until age 70).
- Consider your health, life expectancy, and financial needs when choosing when to start.
- Delaying may result in a higher monthly benefit, but it also means forgoing payments during the delay period.
- It's important to choose what fits your circumstances, not simply what friends or family members have chosen.



Social Security Example

Jim & Karen Jones are considering whether to begin benefits now or delay.
Ages: 66 & 64

	Begin earlier	Delay
Estimated combined monthly benefit	\$3,200	\$4,200
Estimated combined annual benefit	\$38,400	\$50,400
Difference		\$12,000 per year

Question: Does an extra \$12,000 a year matter to you?



Spousal, Survivor & Divorce

- If you are eligible for both retirement and spousal benefits, Social Security generally pays your own benefit first and may add a spousal amount if you qualify. At FRA, the combined amount may be up to 50% of the worker's full-retirement-age benefit.
- Spousal benefits are generally available only after the worker has filed for benefits.
- Survivor benefits are available to eligible surviving spouse. A nine-month marriage requirement applies, but exceptions exist.
- An eligible divorced spouse may qualify based on a former spouse's record if the marriage lasted at least 10 years and they haven't remarried.
- Survivor benefits have different filing rules from retirement and spousal benefits.



Medicare 101 – The Basics

- Medicare eligibility begins at age 65.
 - You can still work full-time and be on Medicare.
 - Whether Medicare or an employer plan pays first depends on factors including employer size, employment status, and coverage.
- 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.

The Costliest Medicare Mistakes

- Missing enrollment deadlines
- Assuming employer coverage works the same
- Choosing coverage without comparing costs, providers and prescriptions
- Ignoring prescription drug coverage



Health Insurance Before Age 65

- If you retire before age 65, you'll need to secure health insurance until Medicare begins.
- Options include COBRA, a spouse's employer plan, Marketplace coverage, or private insurance.
- Compare premiums, deductibles, provider networks, prescriptions, and out-of-pocket exposure.
- For Marketplace coverage, household income may affect eligibility for premium tax credits. Review the Modified Adjusted Gross Income rules before implementing large withdrawals or Roth conversions.

A couple retiring at 62 has potential marketplace premiums and subsidy impact.



Handling your Employer Plan

- Upon retirement, some employer plans may offer a choice between monthly pension payments and a lump sum payout. Plan options vary.

Monthly Pension

Pros:

- Predictable income
- May offer survivor benefits

Considerations:

- Payments may not keep pace with inflation
- Access to principal may be limited
- Election may be difficult to change

Lump Sum

Pros:

- Greater control and flexibility
- Opportunity for continued investment
- Legacy Opportunities

Considerations:

- Exposure to market risk
- Requires investment management
- Future income is not guaranteed



Questions To Ask Before Choosing Your Pension

- What income does my spouse or household receive?
- What happens to the benefit if I die earlier than expected?
- Does the benefit include a cost-of-living adjustment?
- How does the lump sum compare with annuity options?
- What other income sources do I already have?
- What survivor options are available, and how do they affect the monthly benefit?
- Can the election be changed after it is made?



Rollover Rules & Best Practices

- When leaving an employer, options may include:
 - Leaving assets in the employer plan, if permitted
 - Rolling assets into a new employer plan, if accepted
 - Completing a direct rollover to an IRA
 - Taking a taxable distribution
 - An eligible rollover distribution paid directly to you is generally subject to mandatory 20% federal income-tax withholding.
- Only one 60-day rollover is allowed per year across all IRAs.
 - Complete the rollover within 60 days to avoid taxes and penalties.
 - This does not apply to direct trustee-to-trustee transfers or rollovers from a qualified plan.
- Spousal consent may be required for certain pension distributions or benefit elections.
- If you have company stock, explore Net Unrealized Appreciation (NUA) strategies for potential tax savings.
- Before rolling over, compare fees, services, investment choice, distribution options, and access to advice.



Creating the Retirement Paycheck

- A retirement income plan helps coordinate the income sources that may replace a regular paycheck.
- 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 payment dates vary by plan.
 - Social Security pay dates are typically based upon your date of birth and when benefits began.
- Plan for inflation, taxes, healthcare expenses and unexpected costs.



Retirement Income Questions to Address

- Do you have sufficient liquid reserves for near term and unexpected expenses?
 - The appropriate reserve will vary based on income stability, spending needs and other expenses.
- Have you planned for larger purchases (Car, Home Repairs, Etc.) at least 12 months out?
- Have you considered the tax consequences of funding major expenses from different accounts?
- Does your investment strategy consider inflation, purchasing power, liquidity needs, and risk tolerance?
- Will you review the plan regularly and adjust it as circumstances change?



Understanding Taxes in Retirement

- Retirement income is often taxed differently than wages.
- Retirees may need to coordinate federal and state withholding or estimated tax payments.
- Taxes may be paid through withholding, estimated payments, or a combination of both.
- Withdrawals from traditional IRAs and 401(k) accounts are generally subject to ordinary income tax.
- Qualified Roth IRA distributions are typically federal income-tax-free
- Plan withdrawals to minimize your tax bracket.
- Evaluate whether partial Roth conversion may be appropriate.
- Coordinate withdrawals across account types to manage taxes.



Questions We Help Families Answer

Am I financially prepared to retire?

How much might I be able to ?

When should I claim Social Security?

How should I evaluate my pension options?

How can I manage taxes as part of my retirement plan?

How could my decisions affect my spouse and family?



Thank You!

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