Five Things to Know When *Transitioning* to Retirement

FROM WORK TO RETIREMENT, ONE STEP AT A TIME

Rodgers & Associates
WEALTH ADVISERS

A ASSESS YOUR GOALS
G GET READY
I IMPLEMENT THE PLAN
L LIVE THE DREAM
E EMBRACE FAMILY & LEGACY ®

INTRODUCTION

Your transitional years are pivotal to your retirement journey.

Ideally, your last year of work and first year of retirement mark a transition into financial independence—a stage of life when employment becomes optional.

Our experience has shown that the retirement journey consists of multiple phases that often overlap—and rarely follow a set schedule. A good retirement plan must allow for adjustments and flexibility when circumstances change. In other words, it must be A·G·I·L·E.

A·G·I·L·E Retirement Approach

A — ASSESS YOUR GOALS

10 years before retirement

Develop a comprehensive plan to help ensure you will reach financial independence tax efficiently.

G — GET READY

2–9 years before retirement

Reach a solid financial position through a disciplined approach to managing changes in the years leading up to 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.

L — LIVE THE DREAM

In retirement

Stay focused on decisions related to taxes, Social Security, and investments to help ensure your savings last.

E — EMBRACE FAMILY & LEGACY

Beyond retirement

Take an active role in teaching the next generation how to handle wealth and the responsibility that comes with it.

®

INTRODUCTION

The “I” phase of an A·G·I·L·E retirement is a crucial time to fine-tune your transition into financial independence. Some of your decisions could be irrevocable, lifelong choices. With proper financial and emotional guidance, this phase will involve “checking off” the remaining boxes as you arrive at retirement.

From a purely financial standpoint, a retirement planner’s primary job is to minimize the probability that their client runs out of money. We want clients to enjoy a long, low-stress retirement, preferably with money left over for their heirs. However, the retirement journey is not purely financial.

An effective retirement plan should be successful financially and lead to happiness and contentment throughout the journey. Making smart decisions can mean more security, and we wrote this guide to help you make better choices when transitioning to retirement. These decisions include how you will replace your employment income, Social Security’s role in your retirement paycheck, planning for health insurance to bridge to Medicare, and more.

While everyone’s journey is unique, this guide focuses on five crucial areas for most retirees.

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RETIREMENT GUIDELINE 1

11 Things Everyone Should Know About Social Security Benefits

Social Security benefits are an essential part of nearly everyone's retirement plan.

Many people assume Social Security benefits will be a supplement to other sources of retirement income. But in fact, Social Security is the primary source of income for more than half of the 69 million Americans receiving benefits.

Anyone planning for retirement should take the time to understand this vital benefit—but a survey conducted by Nationwide Retirement Institute found that 63% of future retirees were not confident in their knowledge of Social Security. Twenty-six percent believed they could live comfortably in retirement on Social Security alone. Here is some important information about Social Security you may not know.

1. Review your benefit statement regularly

Until 2011, benefit statements were mailed annually. Today, only a few workers receive a paper statement: Those over 60 who are still working, not collecting, and have not created an online account with Social Security. Everyone else must first create an account on the Social Security website to see their statement. It is essential to review your earnings record regularly—because mistakes could lead to reduced future benefits. Typically, you have three years, three months, and 15 days after the year in which you earned the wages to fix mistakes.

2. How is your benefit determined?

Each worker's benefit is calculated using a complex formula based on a 35-year average of covered wages. Wages are adjusted for inflation before being averaged. The government will use the highest 35 years and will average in zeros for workers with a shorter work history, which drags down the average. Avoiding zeros by working longer could have a meaningful impact on a worker's final benefit payment.

3. Drawing benefits too soon could be costly

Full retirement age (FRA) is the age at which you can collect 100% of your benefit, and your FRA depends on the year you were born. For example, if you were born in 1957, your FRA is 66 years and six months. A worker born in 1957 who starts collecting at 62 will collect only 73.8% of the monthly benefit. Benefits will continue to grow 8% annually after FRA for workers who delay benefits until age 70.

4. Started too early? You may have a second chance.

You have 12 months after starting benefits to withdraw your application—provided all the money you received is repaid. You can only do this once, and the application for withdrawal is Social Security Form SSA-521.

5. Voluntary suspension could be another do-over

If you miss the 12-month deadline to withdraw your application, you should continue receiving benefits until FRA. Then you can suspend your benefits without repaying what you have already received, and your benefit will grow by 8% until you reach age 70. However, during a voluntary suspension, other benefits payable on your record (such as benefits to your spouse) are also suspended.

6. Social Security benefits can be taxable

Depending on your income, up to 85% of your benefits could be taxed. And despite inflation, the income levels for taxing Social Security benefits have not changed for decades. Less than 10% of retirees paid federal income tax on their benefits when Social Security first became taxable. Today, about 40% of retirees pay income tax on some portion of their benefits, and more than half are expected to owe taxes on their benefits within three decades.

7. Married couples should consider each other's benefits

You can either draw your benefit or 50% of your spouse's benefit—whichever is greater. However, the lower-earning spouse is not eligible to draw that 50% until the higher-earner starts receiving benefits. Both could start as early as 62. If you receive Social Security benefits as a spouse, the longer you wait, the bigger the benefit (provided your wage-earner spouse waited until full retirement age to start collecting).

8. Spousal benefits are not immediate

Widows and widowers can receive their own monthly payment or their spouse's, but not both. Generally, you must have been married for at least nine months to qualify for survivor benefits if your spouse passes away. There is an exception: The marriage could be for less than nine months if your spouse died in an accident or in the line of duty while in a uniformed service.

9. Spousal benefits can apply after a divorce

If you have been through a divorce, you may be entitled to half of your former spouse's benefits (or your own—whichever is higher). Requirements for spousal benefits include:

- Your marriage must have lasted at least ten years
- You must not currently be married
- You must be at least 62 (60 if your ex-spouse is deceased)

You do not need your ex-spouse's consent, and they will not even know. Your claim has no impact on your ex-spouse's benefits.

10. Social Security benefits are protected from private creditors

The government can garnish monthly benefits to repay debts such as back alimony, child support, restitution, federal taxes, and federal student loans. However, if Social Security benefits are deposited in an account with other money, the bank must protect two months' worth of benefits from creditors. The bank can freeze the rest of the money, leaving it to a court to decide whether creditors can get the funds.

11. Social Security numbers remain unique to each worker

Once a Social Security number is used, it is never assigned again, even if the original owner died. Social Security has issued more than 453 million numbers so far. The administration issues 5.5 million numbers per year and estimates it has enough numbers to last several more generations without changes to the system.[9]

Key Takeaways

- If you take Social Security benefits before your full retirement age, your benefits will be permanently reduced. The earlier you draw benefits, the greater the reduction.
- Do not bank on tax-free Social Security benefits. More than 40% of retirees pay taxes on some of their Social Security, and that figure is expected to grow in the near future.
- If you are married, you can choose between taking your full Social Security benefit or 50% of your spouse's—whichever is greater.

RETIREMENT GUIDELINE 2

How to Handle Your Employer Retirement Plan

There are two types of distribution options from a retirement plan: annuity and lump sum.

Not all employer plans offer a choice. All companies are required to provide an annuity payout in the form of monthly income, and these payments will continue for the retiree's life. Because early retirees have longer life expectancies, their annuity payouts are generally smaller.

A lump-sum distribution is a payment, within a single tax year, of the present value of all lifetime payments.

If you choose the lump-sum payment, you must elect whether to roll it to an IRA or not. If the payment is made directly to you, your employer must withhold 20% for taxes. Pension plans are qualified plans funded with pre-tax contributions. All distributions will be subject to income tax and could be subject to a 10% early withdrawal penalty if you are younger than 55.

Rolling your lump sum straight into an IRA avoids the 20% withholding and allows your money to continue to grow tax-deferred until you withdraw it. If you are over age 59 ½, you can roll your lump sum to an IRA and take monthly distributions immediately. While these payments can be stopped or modified at any time, stopping monthly annuity payments is generally not an option after you have elected lifetime payments. An IRA rollover also allows you to remove a lump sum amount in the future with those withdrawals subject to income tax at that time.

Another advantage of rolling funds to an IRA is the ability to name a beneficiary who will receive the balance in your account when you die. Annuity payments usually allow only a spouse to be named as joint beneficiary, and the payments stop after the joint owners are deceased. IRAs, on the other hand, allow you to name multiple beneficiaries.

Electing the annuity payment is an irrevocable decision. By rolling your lump sum into an IRA, you maintain the ability to set up a guaranteed monthly income by investing the lump sum into an immediate annuity at a future date.

You should also consider the amount of your monthly pension payments and whether they are covered by the Pension Benefit Guaranty Corp (PBGC). In 2025, the PBGC insures payments to a maximum of $7,431.75 per month on a 65-year-old single-life pension. Any payment over this amount could be lost if the pension plan goes bankrupt and the PBGC must step in. In this situation, you might take the lump-sum rollover and purchase immediate annuities as a source of guaranteed lifetime income.

Follow the rules when rolling over your employer plan to an IRA

Rolling over your employer-sponsored plan to an IRA is a simple procedure with basic rules. To qualify for a rollover, you must be separated from service, or your employer must be offering to close out the plan. If the funds are withdrawn from the company

plan, they must be re-deposited into a qualifying IRA (or pension plan) within 60 days or be subject to tax. If depositing to another plan is the goal, you will need to check with your new employer to determine if they allow rollovers from other plans. Not all plans permit incoming rollovers. The human resource director at your new employer can help you with the information you need to complete the paperwork for the rollover.

To roll over to an IRA, you will need to establish a qualified account with a custodian if you do not already have one. Your former employer will provide you with the necessary forms to request a distribution via direct transfer to your IRA custodian. Many employers allow this to be done online or over the telephone. Your financial adviser can assist you with this transaction to help ensure everything is done correctly.

If you elect to touch the money in the process, you may “borrow” the funds for 60 days one time each year. This rule applies to money invested in existing IRAs as well: 60 days, once per year.

The IRS has gotten much stricter with IRA rollovers. Rather than viewing each account as its own entity, a new ruling aggregates all IRA and Roth IRA accounts. Therefore, in 365 days, you can only complete one 60-day rollover without tax implications, regardless of how many accounts you have.

Pension plans must withhold 20% of the proceeds if the withdrawal check is made payable to you. To roll 100% of your pension distribution into an IRA, you would need to pay the tax out of pocket. Otherwise, you will owe taxes on the money you did not roll over and possibly a tax penalty if you are under age 55.

The easiest way to roll over a pension plan is by a trustee to custodian transfer. If you are married, company pension plans generally require a notarized signature of your spouse (who will be giving up their right to an annuity interest) for you to move the money into your IRA.

There are several other rules to keep in mind when planning for a rollover. For example, suppose you are 55 or older when the separation from service occurs. In that case, you may take your company pension as a lump sum distribution without paying the 10% early withdrawal excise tax. You will be taxed on the distribution as ordinary income. If you elect to roll the money into an IRA, this option is not available until you hit age 59 ½. Check with your company to see if they allow the rollover to be split, enabling you to take some of the money in cash now and roll over the rest. Keep in mind the plan will be required to withhold 20% of the amount paid to you for taxes.

If you have company stock in your plan, you should consider an often-overlooked tax strategy known as net unrealized appreciation (NUA). This is a complicated issue and requires professional advice for most investors.

Key Takeaways

- A lump sum distribution is just what it sounds like: a one-time payout of all the assets in your employer retirement plan. Annuity payments, on the other hand, are typically distributed monthly for the rest of your life.
- Rolling your lump sum into an IRA has several advantages—including tax benefits, flexibility, and the ability to pass on the balance to any beneficiary you choose.
- New, stricter rules put in place by the IRS mean that you can only complete one 60-day rollover without tax implications in a 365-day timeframe, regardless of how many accounts you have.

RETIREMENT GUIDELINE 3

Creating a Steady Paycheck in Retirement

Most retirees transitioning away from work have spent 40+ years paying their bills with a steady stream of paychecks.

But when retirement begins, the paychecks stop. This leads to one of the most natural—and pressing—questions for retirees: How will I replace these steady wages so I can fund expenses for the next 30–40 years?

The most straightforward way to ensure retirement cash flow is to recreate steady paychecks. Up until the 1960s, the solution was simple: Retirees bought bonds, which generated periodic interest payments in the form of coupons. People just had to make sure they had enough coupons to cash in as retirement "paychecks."

Then, in the 1970s, inflation cut the purchasing power of bonds by 57% in a decade. Retirees in the 1980s shifted to the alternative income vehicle of dividend-paying stocks, which could better keep up with inflation. The pay-check replacement strategy was essentially the same: Buy enough dividend-paying stocks (as opposed to interest-paying bonds) to cover regular expenses.

But dividend-paying stocks also incur capital gains and losses. And unfortunately, capital gains are not nearly as stable as dividends or interest, often producing large distributions in some years and little to no (or even negative) distributions in other years. This makes them less conducive to generating regular payments to retirees.

The good news is retirees can often balance these three sources—interest, dividends, and capital gains—to create retirement income and wealth. When combined with ordinary income and the other two "legs" of our New Three-Legged Stool™ approach (tax-deferred accounts and tax-free Roth IRA distributions), all these tools can create a tax-efficient strategy.

HOW DO YOU PLAN A RETIREMENT PAYCHECK?

Employer Pension: Today, pensions are being eliminated by many companies. If your employer still offers a pension, you will be required to make a payout election (which is often irreversible). Payment options include whether to include spousal coverage—joint life expectancy for all or some of the benefit. A financial planner can help you evaluate your options. Generally, the choice based on a single life expectancy will offer a higher monthly benefit, while the option based on joint life expectancy will provide lifetime income and more security for both spouses.

Social Security: Another vital source of retirement income is Social Security. One of the most critical decisions for retirees is when to begin taking Social Security benefits. If you draw Social Security benefits early, benefits are reduced 5/9 of 1% for each month before the normal retirement age, up to 36 months. If the number of months exceeds 36, the benefit is further reduced by 5/12 of 1% per month. On the other hand, if you delay drawing benefits beyond your full retirement age, you will see an increase of 8% a year until age 70.

Create a private pension: As a retiree, you could take a portion of your retirement savings and buy a single premium immediate

annuity. The annuity provides a guaranteed monthly paycheck for life. In this way, an annuity is like an employer pension, although an insurance company backs it. You can purchase annuities with or without an "inflation rider" that increases your monthly payment with inflation.

Pension income and Social Security benefits are generally used to create regular, predictable income streams. Investment and retirement accounts can help adjust for shortfalls and inflation.

Generating a regular paycheck for our retired clients is a matter we take seriously. We believe that combining income, dividends, capital gains, and IRAs has the best chance of success in both good times and bad.

OUR APPROACH TO GENERATING RETIREMENT INCOME

At Rodgers & Associates, we approach this issue with the objective of generating a steady, reliable retirement paycheck. The goal is to achieve this with the least amount of risk, taxation, and expenses. Ideally, we can maximize flexibility while maintaining a long-term investment strategy.

The first thing we address is the mechanical process of generating your retirement paycheck. A deposit can be made monthly to your bank account on the same day and in the same amount. You can even have this split into two deposits—one on the first and one on the fifteenth—just like a normal paycheck.

Usually, the details of where the funds come from are left to us. We determine whether it makes the most sense to draw from dividends and interest, capital gains liquidations, a required minimum distribution from an IRA, or a maturing bond. We make these decisions with the goal of minimizing taxes and transaction costs and maintaining a balanced investment portfolio. The mechanical challenge of generating retirement paychecks entails maintaining a predictable stream of cash. We never want a bad market to affect your monthly paycheck. Knowing when interest and dividends are being credited while having bonds mature regularly helps achieve this goal.

While there are many approaches to producing retirement income, our approach has worked for our clients in good times and bad—and we continue to review our policies and strategies to fine-tune the process.

Key Takeaways

- Today's retirees cannot rely solely on traditional retirement income sources, like bond interest. Instead, aim for a mix of interest, dividends, capital gains, tax-deferred withdrawals, and Roth distributions.
- If you reach full retirement age but choose to delay drawing Social Security benefits, your future benefit amount will increase by 8% per year until age 70.
- Private pension plans are a popular option for creating regular monthly "paychecks" during retirement. By putting a portion of your retirement savings into an immediate annuity, you will be guaranteed a steady source of income for the rest of your life.

RETIREMENT GUIDELINE 4

Medicare 101: The Basics You Need to Know

One of the most complex issues you will face when you reach age 65 is what to do about Medicare.

Most of us have been paying into Medicare our whole working lives by way of taxes deducted from our paychecks. Most of us become eligible for Medicare when we reach age 65 and are eligible for Social Security, but you can qualify under age 65 if you have received Social Security disability (SSDI) for at least 24 months.

If you are eligible for Social Security retirement benefits but do not take them at age 65, you can still receive Medicare benefits.

If you are not eligible for Social Security but you meet Medicare's residency and citizenship requirements, you can still qualify for Medicare—but you will need to pay Part A premiums. How much you pay for Part A depends on how long you paid Medicare taxes while working.

Medicare is divided into three parts: Part A, Part B, and Part D. In general terms, Part A covers hospital-related expenses. Part B covers doctors and outpatient medical services, laboratory tests, x-rays, and therapy. Part D is the prescription drug benefit. The first step to enjoying the full benefits of the Medicare system is to understand how the programs work.

Enrollment in Medicare is automatic for most people and does not require an application if you already get Social Security benefits. If you qualify for Social Security benefits but are not receiving them when you turn 65, you must enroll in Medicare. You can file an enrollment application during the seven months surrounding the month of your 65th birthday. This period includes the three months before your birthday month, your birthday month, and the three months

after your birthday month. If you miss your initial enrollment period, you may enroll between January 1 and March 31 each year, but you may pay a penalty for late enrollment. Your Medicare coverage will start on July 1 of the year you enroll.

JOINT FILERS

Your 2023 modified AGI	Your 2025 monthly Part B premium	Your 2025 monthly Part D premium
$212,000.01–$266,000	$259.00	$13.70
$266,000.01–$334,000	$370.00	$35.30
$334,000.01–$340,000	$480.90	$57.00
$400,000.01–$750,000	$591.90	$78.60
$750,000.00 & above	$628.90	$85.80

SINGLE FILERS

Your 2023 modified AGI	Your 2025 monthly Part B premium	Your 2025 monthly Part D premium
$106,000.01–$133,000	$259.00	$13.70
$133,000.01–$167,000	$370.00	$35.30
$167,000.01–$200,000	$480.90	$57.00
$200,000.01–$500,000	$591.90	$78.60
$500,000.00 & above	$628.90	$85.80

Medicare Part A coverage is free if you are 65 or older and eligible for Social Security. Those who have paid into Social Security for less than 40 quarters must pay a premium based on the number of quarters they have worked. There is an exception for those who are disabled and qualify for SSDI.

Medicare covers most health care services that you and your doctor think you need. Most doctors accept Medicare. Doctors are not required to treat Medicare patients, but if they do, they are legally bound to file claims with Medicare and to charge no more than state and federal laws permit. Medicare will pay the doctor 80% of its approved amount, and you are responsible only for the remaining 20%. Doctors who do not take assignments can charge you up to 15% more than Medicare's approved amount, so you should always ask if they will accept the assignment.

Everyone pays a monthly premium for Medicare Part B. In 2025, the standard Medicare Part B monthly premium is $185 per month. Part B premiums will usually only be increased in years that Social Security benefits also increase, and people with incomes will pay a higher Part B premium.

Medicare Part D coverage is only available through Medicare private drug plans. Enrollment in Part D is optional for most people since the economics of this benefit will depend on your current drug coverage and drug needs. Start by checking the plan you have now to see how it will coordinate with Medicare. There are situations where having Part D could cause you or your family members to lose other health care coverage. If your current drug coverage is as good as or better than Part D, you can keep it without penalty. There is a penalty for enrolling later if you do not have coverage and do not enroll when you are first eligible.

You will need to choose a plan that works with your current Medicare health benefits when you enroll in Part D. Original Medicare coverage requires you to choose a stand-alone plan that offers just drug coverage (PDP). A Medicare Advantage plan (Medicare private health plan) typically provides drug coverage as part of your plan's benefits package. Each plan has different costs and covers different drugs through different pharmacies.

Enrollment in Part D can begin when you first become eligible for Medicare and enroll in Medicare Parts A or B. Changing your Part D plan can only be done during the Fall Open Enrollment. Most years, the open enrollment time frame is from October 15 to December 7.

Understanding the basics of Medicare A, B, and D prepares you to take the necessary steps at the proper time, and it also helps you deal with problems in the system when need be.

For more information on Medicare, visit the official website at Medicare.gov.

Key Takeaways

- Medicare benefits do not depend on whether or not you take Social Security. If you are eligible for Social Security but choose to delay drawing benefits, you can still receive Medicare coverage.
- Medicare Part A covers hospital expenses. Part B covers doctors, outpatient services, lab tests, x-rays, and therapy. Part D helps cover prescription drug costs.
- The higher your income, the more you will pay for Part B and Part D coverage. But if you are age 65+ and eligible for Social Security, Part A is free.

RETIREMENT GUIDELINE 5

How Income Taxes are Paid in Retirement

We will start with the bad news: many retirees continue to pay income taxes after they stop working.

The amount of tax owed is calculated on total income received, similar to the way taxes are calculated on earned income. But the good news is that tax rules apply differently to certain types of income—and in some cases, tax rates on retirement income are lower.

If you have been an employee all your working life, you are probably accustomed to having income tax withheld before receiving your paycheck. Many people go through their working years simply filing a tax return at the end of the year and getting a refund.

Will you be able to withhold taxes on your retirement income? It depends. Some common types of retirement income allow it, while some do not.

Pension Income: Most pension income is taxable, and there may be times when a pension is partially funded with after-tax income. Pension income is reported on Form 1099-R: this form reports the gross amount of income received during the calendar year and how much is taxable.

Generally, the pension provider must withhold federal taxes from pension benefits unless instructed otherwise. There are three options: 1) no withholding, 2) withholding a fixed dollar amount, or 3) automatic withholding based on marital status and number of exemptions. The election is made by completing form W-4P and submitting it to your pension provider. If you do not make an election, taxes are typically automatically withheld for federal taxes. Your election remains in effect until you revoke it.

Social Security Income: Not all Social Security benefits are taxable. There is a formula to determine the amount that is taxable for each taxpayer. The taxable amount is anywhere from 0%–85% and depends on how much other income is counted on the tax return each year.

You are not required to have taxes withheld from Social Security benefits, but voluntary withholding can be one way to cover taxes instead of making estimated tax payments. To elect tax withholding, file Form W-4V with the Social Security Administration. Federal income tax can be withheld at a rate of 7%, 10%, 12%, or 22% as of 2024. You are limited to these exact percentages and cannot opt for another rate or a flat dollar amount.

Income from Traditional IRAs and Other Retirement Accounts: You will likely owe some tax when you withdraw money from your IRA or other retirement plan. Withdrawals from tax-deferred retirement accounts are taxed at ordinary income tax rates. The amount of tax depends on your total amount of income, deductions, and your tax bracket.

You can have tax withheld by an IRA custodian when you take a taxable distribution. The IRA custodian will remit the amount to the IRS and report it on Form 1099-R at the end of the year. You can instruct the custodian to withhold up to 100% of the distribution for taxes. Withheld tax is treated as if it were paid at an even rate over the year, even if it is all paid just before the year's end. This means that withholding on an IRA distribution taken just before the end of the year can make up for underpayment penalties on earlier missed estimated quarterly payments.

Investment Income: Income from dividends, taxable interest, and capital gains are taxed the same way whether you are working or retired. These types of investment income are reported on a 1099 tax form each year by the financial institution that holds the account. The IRS receives a copy as well.

Not every source of cash flow from your investments is counted as taxable income, and most interest from municipal bonds is not subject to federal tax. If you qualify for the 0% long-term capital gains rate, you pay no tax on all (or a portion) of the capital gains you received that year.

Taxes cannot be withheld from investment income. You have two ways to remit the tax owed on this income to the IRS: (1) have additional tax withheld from pensions, Social Security, or IRA distributions, or (2) make quarterly estimated tax payments.

QUARTERLY ESTIMATED TAX PAYMENTS

The IRS generally wants to receive the tax owed in four equal payments due on April 15, June 15, September 15, and January 15. You could pay tax for each period as income is received. This method allows you to make smaller payments earlier in the year and larger payments later. This works best if most of your income is received later in the year.

You can send estimated tax payments with Form 1040-ES by mail, phone, online, or from the IRS2Go app. When figuring estimated tax for the current year, it may be helpful to use your income and deductions for the prior year as a starting point. Last year's federal tax return is also a practical guide. The worksheet in Form 1040-ES is a useful resource when making estimated tax payments.

One challenge with quarterly payments is accurately estimating income from the start of the year for the entire year. Overestimating income would cause your first-quarter payments to be too large, and underestimating income causes smaller first payments, possibly leading to an underpayment penalty. Another challenge is making each quarterly payment on time. Some people forget to make payments altogether, incurring even more late-payment penalties when they finally remit what they owe.

The IRS could levy penalties if you do not pay enough tax through withholding and estimated tax payments. There could also be penalties if your estimated tax payments are late, even if you have an outstanding refund from last year's tax return.

We work with our retiring clients to prepare accurate tax projections and update them throughout the year. Our projections serve as guides to ensure that enough tax is withheld or paid through estimated payments to avoid penalties.

Key Takeaways

- Depending on your total annual income, anywhere from 0%–85% of your Social Security benefits may be taxed.
- Income from dividends, taxable interest, and capital gains are taxed the same way whether you are working or retired.
- The IRS quarterly estimated tax payments are due on April 15, June 15, September 15, and January 15. To make estimated tax payments, use Form 1040-ES.

CONCLUSION

If you are unsure what to do next, speak with one of our advisers.

All our advisers hold professional designations, with most holding the Certified Financial Planner™ or CFP® designations in addition to the Chartered Retirement Planning Counselor℠ or CRPC® designation or the Retirement Income Certified Professional® or RICP®. The CRPC® program covers all aspects of the retirement process in a single comprehensive program with no product or advising biases. The RICP® covers the practice of creating an effective retirement income plan.

At Rodgers & Associates, we have one service: helping our clients become financially independent for retirement. When you have questions about retirement, we are here to help. We understand our clients' financial and personal lives through regular check-ins and make recommendations to help them achieve their goals.

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