RYAN POAGE & CO.
INVESTMENTS | WEALTH MANAGEMENT

TAKING STOCK

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Where's Your Retirement Income Gonna Come From?

One day you'll wake up and the financial planning objective that seemed so far in the future—your retirement—will be right around the corner. The big question—how can you maintain a comfortable lifestyle through your golden years—will be a real and present concern. To get ready for that day, you can identify the main sources of your retirement income and concentrate on making them grow.

Although every situation is different, you'll probably get your income from a combination of four main sources:

1. Employer-sponsored retirement plans and IRAs. While you're still working, you may be able to make tax-advantaged contributions to a 401(k) plan or to a Simplified Employee Pension (SEP) or to a Savings Incentive Match Plan for Employees (SIMPLE). Generally, the money you put into such accounts will grow untouched by taxes until it's withdrawn during your retirement. In 2016, you can defer up to $18,000 of salary to a 401(k) or $24,000 if you're age 50 or over, as well as receive possible matching contributions from your employer.

Similarly, you can benefit from saving in a traditional IRA, a Roth IRA or both. The IRA contribution ceiling for 2016 is $5,500 or $6,500 if you're age 50 or over. If you convert traditional IRA funds into a Roth, you'll owe tax in the year you transfer the money, but the Roth may provide tax-free distributions to you in the future.

2. Investments. Beyond withdrawals from 401(k)s, IRAs, and other such plans, you'll likely need other sources of income to help fill out your retirement "paycheck." For your taxable investments, you'll probably want to diversify among stocks, bonds, mutual funds, exchange traded funds (ETFs), annuities, and real estate, to name several of your main options.

Keep in mind that taxes will erode some of the value of these accounts, now and during retirement. Tax-free municipal bonds or municipal mutual funds can be a useful part of the mix, particularly if your earnings put you in the top income brackets.

3. Social Security. This can be another valuable supplement to other sources of income, but don't expect Social Security retiree benefits alone to be enough to fund a comfortable retirement. Your SS benefits normally will be based on your earnings history, your age, and your date of retirement. Although you can begin receiving reduced monthly benefits as early as age 62, the full retirement age (FRA) for most baby boomers is 66. That's when you can get what the government defines as your full benefit—and the

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High Stakes And Misleading Odds

We're not talking about casinos, but rather, many seemingly reputable retirement calculators.

A recent study conducted by researchers at Texas Tech concluded 25 out of 36 online retirement-planning tools provided overly optimistic assessments of someone's ability to retire. In one case, when software used by financial professionals gave a hypothetical couple a probability of 53% of not running out of money, over two-thirds of online calculators gave the couple good odds or even stated "Congratulations, you can retire."

In addition to observing this through my own research, I've noticed that it is quite common for 401k plan statements to provide a projected retirement income figure that is about twice the amount that is widely viewed as prudent. A depressed workforce isn't productive, after all.

This is a serious problem that adds to the complexity of creating an income from one's retirement nest egg. We use software that runs 1,000 scenarios to come up with a statistically meaningful probability of not running out of money, and then we run numerous versions, making incremental tweaks to try to improve the odds. When it's time for you and your friends, family, and coworkers to look into this topic, we're here to help.

Ryan

When To Use An Installment Sale

Do you own commercial or investment real estate you're planning to sell? If the property has appreciated in value since you bought it, and you've been writing off your initial cost through depreciation deductions, you could owe a hefty tax on the transaction. What's more, you might not be able to find a buyer that can come up with all of the cash—at least not at your asking price.

You may be able, however, to kill two birds with one stone. An installment sale of commercial or investment real estate can let you defer the tax over several years, reducing the overall tax bite. In addition, the buyer can spread out the payments. There are no special conditions; the tax law specifies only that the payments must be made over two or more years.

Except for the effect of having the sale happen gradually, the basic tax rules for real estate transactions continue to apply. If you make a profit, it will be taxed as a capital gain. If you've held the property for more than one year, your long-term capital gain will be taxed at a maximum rate of 15%, or 20% if you're in the top ordinary income tax bracket of 39.6%. You also may be liable for the 3.8% surtax on net investment income.

You generally will owe tax on a portion of your gain in the year of the sale and the remainder in the years during which you receive the installment payments. The taxable portion is based on something called the "gross profit ratio"—your gross profit from the real estate sale divided by the price. Suppose that you sell a commercial building, your gain is $1 million, and the gross profit ratio is 60%. If you receive $250,000 a year, you are taxed on $150,000 (60% of $250,000) of the proceeds annually. Assuming a 20% long-term capital gain tax rate (and excluding any net investment income surtax), your tax each year on the installment sale is $30,000 (20% of $150,000).

Any depreciation you claim on the property must be recaptured as ordinary income to the extent it exceeds the amount allowed under the straight-line depreciation method. However, spreading out the tax over a number of years will take greater advantage of the 15% tax rate on long-term capital gain.

Finally, there's one other potential tax pitfall. If the sale price of your property (other than farm or personal property) exceeds $150,000, you'll have to pay interest on the tax that is deferred to the extent that your outstanding installment obligations exceed $5 million.

While installment sale treatment on your tax return is automatic, you can opt out if that suits your purposes—for example, if your income was otherwise low for the year. In that case, the entire gain is taxable in the year of the sale. But these rules are complicated, so be sure to get expert tax advice about your situation. ●

When One Roth IRA Is Not Enough

If you've finally decided to pull the trigger on a Roth IRA conversion, the simplest approach is to transfer assets from your traditional IRAs into a single Roth account. But you might instead consider setting up multiple Roth accounts to help insulate your savings from fluctuating markets.

This strategy depends on the rules for Roth "recharacterizations," in which you reverse a conversion to put your money back in traditional IRAs. With multiple Roth IRAs, you can recharacterize selected accounts if particular investments go south.

With a conversion to a Roth IRA, you pay taxes now to avoid them later; most distributions you take after you've reached age 59½ from a Roth you've had for at least five years are 100% tax-free.

Another advantage of a Roth is that if you don't want to take out money during your lifetime, you don't have to. There are none of the required minimum distributions (RMDs) that apply to traditional IRAs.

The trade-off for these benefits is that you must pay tax on the amount you convert to a Roth, just as if you had taken the money out of a traditional IRA for a normal distribution. You're taxed on the value of the assets you convert on the date of the conversion.

And what if that value declines after the conversion? You could end up paying taxes on assets that essentially have disappeared. That's where recharacterizations come in. The deadline for recharacterizations is your tax return due date for the year of the conversion plus any extensions. Thus, you have until October 15, 2017, to recharacterize a Roth conversion you make in 2016.

But you can't recharacterize part of a Roth IRA; you have to move the entire contents back into a traditional account. That's why it could make sense to set up multiple Roth accounts,

Don't Be Victimized By These 10 Common Scams

Scams of all varieties continue to bilk unsuspecting victims out of billions of dollars each year. In particular, older Americans are being targeted, especially those who have been recently widowed. With that in mind, here are 10 scams to watch out for:

1. IRS imposters. This scam proliferates during tax-return season. A caller will say he or she is an IRS agent and claim you owe back taxes. Then the caller threatens you with stiff penalties or a lawsuit—and even arrest—if you don't wire the money immediately. But the IRS doesn't call debtors without sending a notice via U.S. mail first. To be on the safe side, if you get such a call, check with the IRS at 1-800-829-1040 to check the caller's credentials.

2. Tech support. Typically, you receive a phone call purporting to be from Microsoft or another software company, and the caller says a virus has invaded your computer. Then you're asked to provide access to your computer and the hacker installs malware that steals personal information. These software companies don't make unsolicited phone calls, so hang up immediately.

3. Robo-calls. Are you a victim of those annoying automatic telephone calls? Although the call itself isn't an attempt at ID theft, it helps the crooks build a "go-to list" for future phone scams. Use your caller ID to screen calls and don't answer if someone is calling from a number you don't know.

4. Charitable solicitations. Many legitimate charities call on the phone so it's hard to weed out the real ones from the fakes. Investigate any charity before handing over cash or making a credit or debit card contribution by mail or online. If the charity is for real, the caller won't hesitate to provide additional information. Check out charities at www.charitynavigator.org.

5. Credit cards. It's not surprising that scam artists are working an angle as credit card companies change their cards from magnetic strips to chips. Someone impersonating a credit card company employee may request information or ask you to click on a link to update your status. But credit card companies don't operate this way. If you have any doubts, call the company directly.

6. Dating websites. Initially, scams were based on prying money or sensitive data out of single people who recently have entered the dating scene. But now it has mushroomed into more sophisticated cons aimed at newcomers to religion-based sites. Because you're "dating" someone from your faith, you may be more likely to let your guard down and give access to money.

7. Widows and widowers. A typical trick of con artists is to prey on your emotions. Of course, elderly individuals are especially vulnerable after the death of a loved one. It's not unusual for a criminal to pretend to be a banker or other professional to coerce you to hand over funds. Rely on reputable financial planners you know and trust and close family members to steer you in the right direction.

8. Medical ID theft. ID theft often is associated with financial information, but loss of medical information can be just as damaging. Just imagine someone running up costs for expensive drugs, doctor visits, and even surgery under your name. What's more, unlike theft of credit card data, you're often held liable for these purchases. Don't volunteer your particulars (for example, Social Security and insurance account numbers) unless you're certain it's for a valid reason. Check with your insurer about any charges you don't understand.

9. Gift card vouchers. If you're targeted for this scam, you receive an unsolicited email offering you a free gift card from a well-known retailer or restaurant if you click on a link. It can look legitimate—the scammers will go to great lengths to replicate logos and corporate designs—but often it isn't. Clicking on the link will install malware on your computer that can siphon away personal data. No matter how appealing an offer is, don't click on links you have not verified.

10. Counterfeit apps. Finally, in a highly publicized incident, Apple developed some applications that were found to contain vicious malware that spied on consumers. While Apple believes it has purged these malicious apps, similar occurrences could lead to loss of personal data. Try to use only well-known apps and consider reading reviews before purchasing them.

These are just 10 of the scams currently making the rounds. Be on your guard and be skeptical of anything that doesn't seem just right. ●

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with each one holding a different kind of asset.

Suppose you have $500,000 in your traditional IRAs, with $250,000 invested in stocks and $250,000 is in bonds. (This is hypothetical and not indicative of any particular allocation.) If the value of the stocks drops to $200,000 and the value of the bonds rises to $275,000, your entire account will be worth $475,000. If you recharacterized the account you could avoid paying taxes on that $25,000 of lost value ($500,000 - $475,000).

But consider what would happen if you set up two Roth IRAs—one for stocks and the other for bonds. Then, if stock prices fell, you could decide to recharacterize only the stock account. That would save you tax on $50,000 ($250,000 - $200,000), while preserving the $25,000 increase in the Roth invested in bonds.

Your financial situation may have other elements that would affect this strategy. But in the right cases it can add flexibility and protection with minimum risks. ●

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Retirement Income Sources

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longer you wait, up to age 70, the larger your monthly benefits will be.

If you choose to begin receiving Social Security benefits while you continue to work—but before you reach full retirement age—the amount of your benefits will be reduced by $1 for every $2 you earn beyond an earnings threshold that is $15,720 in 2016. During the year that you will reach FRA but before your birthday, you can earn up to $41,880 without penalty; exceed that amount and you'll lose $1 in benefits for every $3 you earn. But beginning in the month you reach full retirement age, you can earn as much as possible without any reduction in Social Security benefits.

4. Other income sources. Finally, you may be able to rely on income from various other sources, expected or unexpected. That might include inheritances or gifts from family members, a profit from selling your home or other property, insurance benefits, deferred compensation, early retirement packages, and other sources. If you have an interest in a business you might continue getting income even after you stop working, or you might sell your interest.

Any or all of these may have special tax implications you'll need to take into account. Note that you can exclude from taxable income a gain on a home sale of as much as $250,000—or up to $500,000 if you're a joint tax filer.

Once you analyze your situation, you may find that these four income sources will be enough for you to live on comfortably in retirement. But if you see that your projected income may be less than you expect to need, you may have to ramp up your savings, perhaps contributing more to your tax-advantaged retirement plans. We can help you map out a plan that will help you meet your goals. ●