retirewise

RETIREMENT SAVINGS AND TAXES: WHAT TO EXPECT

With tax season approaching, it is a good time to start thinking about the future, including retirement and how Uncle Sam will affect your savings. One of the biggest mistakes pre-retirees make is not calculating the chunk federal and state taxes will take out of their retirement funds. How you choose to tap into your accounts could make a big difference in the amount of money you keep.

Here is some information on how taxes affect common retirement savings accounts so you will know what to expect when planning your financial future:

- **Tax-deferred accounts** (Traditional IRA or 401(k)). These accounts are taxed as ordinary income once you are ready to take your distributions. Be sure to note that if you make withdrawals before age 59 ½ you typically have to pay a 10 percent early withdrawal penalty on top of any taxes owed.

- **Roth IRA**. You paid your dues up front, now you can sit back and enjoy taking distributions in retirement without the burden of taxes being taken out.

- **Pensions**. Private and government pensions are taxable at your ordinary income rate, unless you made any post-tax contributions. Just beware if you receive payments before age 59 ½ you may be subject to a 10 percent tax on early distributions.

- **Taxable accounts** (Stocks, bonds, mutual funds or other investments). Profits from selling any of these accounts are subject to capital-gains taxes, which vary depending on the length of time you've had your investment(s).

- **Social Security**. It may come as a surprise to some retirees that a portion of their Social Security income could be taxed. This happens if you have substantial income that includes wages, self-employment, interest, dividends and other taxable funds that must be reported on your tax return.[1] Learn more here about potential taxes on your Social Security benefits.

Below are some strategies to help minimize income tax on your future retirement income:

- **Strategic distributions:** Traditional advice has retirees taking distributions from taxable accounts first, followed by tax-deferred accounts. This makes sense unless you have a lot of money in a tax-deferred IRA or 401(k) as mandatory withdrawals could push you into a higher tax bracket.

- **Reduce your expenses**. If you get in the habit of spending moderately each month, then you won't have to take as much out of your retirement savings. Spending less may also help you stay under the 15 percent tax bracket and enjoy some tax breaks.

- **Pay off your home**. Take a large financial burden away before retiring by paying off a home mortgage. It is hard to avoid taxes if you take out a large sum of money from your retirement savings for a mortgage each month. We can discuss this option with you as in some cases the tax break from paying your mortgage interest may outweigh the benefit of being mortgage-free.

- **Diversify your post-retirement income**. As a retiree, you may have income coming from different places—Social Security, IRA/401(k), investments, pensions and more—that all could be taxed differently (with the exception of a Roth IRA). We can work with you to diversify your retirement income options now to ensure you get the most longevity out of your money in your golden years.

Contact the office to schedule an appointment if you'd like to better understand your income taxes and obligations.

WHAT YOU NEED TO KNOW ABOUT SOCIAL SECURITY SURVIVOR BENEFITS

If you recently lost a loved one, we understand this may be a difficult time in your life. When it comes to your finances, there are some important decisions you need to make, including when and how to take your Social Security survivor benefits.

It may seem a bit overwhelming navigating the Social Security waters to determine how best to maximize your and your late spouse's benefits. You should know that survivor's benefits are calculated using two variables: 1) the age of the deceased spouse, and 2) the age of the surviving spouse. Here are your options depending on your life stage:

- You have the option to take your widow/widower benefit at age 60 (or age 50 if you are collecting disability) then start collecting your full retirement benefits at age 70. However, if taken before full retirement age, your benefit may be subject to a small percentage reduction until the surviving spouse reaches full retirement age.
- Or, if you are at full retirement age (e.g., age 66 for those born between 1943 and 1954) and widowed, you can suspend taking your own benefits until age 70.
- You can start collecting benefits at any age if you are caring for your late spouse's child under age 16.

If you have questions on strategies for maximizing you and your spouse's Social Security benefits, please call the office.

These are the views of Cassie Dono, a freelance financial writer and news commentator, not the named Representative or the Broker/Dealer, and should not be construed as investment advice or a recommendation. Neither the named Representative nor Broker/Dealer gives tax or legal advice. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. The publisher is not engaged in rendering legal, accounting or other professional services. If expert assistance is needed in these areas, the reader is advised to engage the services of a competent professional. Please consult your Financial Advisor prior to making any investment decisions.

[1] https://www.ssa.gov/planners/taxes.html