JULY 2018

Petrone Associates
Financial Advisors

Q3 NEWSLETTER

Dear Clients and Colleagues:

In this newsletter, we will review the Second Quarter 2018 market performance and discuss the benefit of tax-efficient retirement withdrawal strategies.

Second Quarter 2018 Market Performance[1]

	2Q 2018	Trailing One Year
S&P 500	3.43%	14.37%
MSCI EAFE (Dev.Int'l)	-1.24%	6.84%
MSCI EM (EmergingMrkt)	-7.96%	8.2%
BarclaysUSAggIndx	-.16%	-.40%

Tax-Efficient Withdrawal Strategies – Helping Your Money Last Longer

Tax-efficient withdrawal strategies can extend the life of a retirement portfolio by years and can be critical in helping to avoid running out of money. Typically, retirees have several different types of accounts to tap into for retirement income – ordinary taxable accounts (e.g., brokerage or savings accounts); tax deferred accounts (e.g., IRA's and 401k's); and sometimes tax free accounts (e.g., Roth IRA's). The longstanding conventional wisdom is to 1) spend from the taxable account first; 2) withdraw from tax deferred accounts second; and 3) withdraw from tax free accounts last. However, studies have shown that an even better strategy is to take advantage of opportunities to take withdrawals from tax deferred accounts when the distributions will be taxed at low marginal rates and similarly to utilize partial Roth conversions early in retirement when available at low rates. [2]

Trivia

As this newsletter is being prepared, we are in the middle of the World Cup soccer tournament. Who holds the record for the most goals scored in World Cup soccer?

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[1] Indices are unmanaged and one cannot invest directly in an index. Past performance is not a guarantee of future results. MSCI EAFE Index serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indexes from Europe, Australia and Southeast Asia. MSCI EAFE Emerging Markets Index is a free float-adjusted market capitalization index designed to measure equity market performance in the global emerging markets. Barclays U.S. Aggregate Bond Index represents the US investment-grade fixed-rate bond market. S&P 500 Index is a market index generally considered representative of the stock market as a whole. The index focuses on the large-cap segment of the U.S. equities market.

[2] See, e.g., "Tax-Efficient Withdrawal Strategies," K. Cook, W. Meyer & W. Reichenstein, Financial Analysts Journal, Vol. 71, No. 2, March/April2015, pgs. 16-29; "The Effects of Social Security Benefits and RMDs on Tax-Efficient Withdrawal Strategies, G. Geisler & D. Hulse, Journal of Financial Planning, Feb. 2018, pgs. 36-44.

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One analysis compared the **1) conventional wisdom** approach (taxable; then tax deferred; then tax free) *with the* **2) maximize taxable distributions in lower tax brackets** approach (tax deferred up to top of lower tax brackets; then taxable; then tax free); *with the* **3) Roth conversions up to the top of lower tax brackets** approach (Roth conversions early in retirement up to top of lower tax brackets; then taxable; then tax free).[3] In that study, Strategy 1 preserved the retirement portfolio for 33.15 years; Strategy 2 preserved the retirement portfolio for 34.37 years; and Strategy 3 preserved the retirement portfolio for 35.51 years – 2.36 years more than the conventional wisdom strategy.[4] The advantages of this kind of tax bracket management strategy can be even greater if social security benefits are delayed to age 70, which also serves to increase permanently the amount of the social security benefit.[5]

With significantly lower tax rates in effect in 2018, now is a particularly good time to consider utilizing tax-efficient withdrawal strategies and Roth conversions to potentially minimize taxes and help extend retirement portfolios for longer periods of time.

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[3] Cook et al., ibid., pgs. 16-29
[4] Id. at pg. 20.
[5] Geisler et al., ibid., at pg. 43.