Are You Comfortable *with the* TAXES *you will be* PAYING IN RETIREMENT?

July 1, 2016, was an important date for the first of the Baby Boomers. That was the day those Boomers reached their required minimum distribution age. That was the day they hit their half birthday and had to take out 4.65 percent of their IRAs, 401(K)s, and 403bs. It did not matter whether they needed the money or not. It was time to pay the piper. The piper, in this case, was, and remains, the tax man.

Most of those Boomers and almost all workers today are told to save for retirement using tax-deferred accounts like traditional IRAs and 401(K)s. The reason is quite simple. The money saved in these accounts is not subject to income taxes. Workers who have access to these plans can invest anywhere up to $18,000 or $24,000 per year, depending on their age. A disciplined investor can achieve a significant amount of retirement savings using these accounts.

I was recently contacted by a married couple who had been retired for five years. They each had successful careers, and each had used 401(k)s to save for retirement. Between the two of them, they had accumulated over four million dollars when they retired. The value at the end of the last year was $3,850,627. They each celebrated their 70th birthday in February, so they will be 70-and-a-half in August of this year. They wanted my advice on how to soften the effect of taxes on their required minimum distribution. The told me they did not need to take a lot of money out of their 401(k)s, as their other savings and Social Security benefits provided for their needs. Required minimum distribution for both, was $140,534, all of it taxable at their personal tax rate. Their options were few.

The result meant that they would have a substantial increase in their taxable income when they filed next April. In addition to the $140,534 being taxed, 85 percent of their Social Security benefits were also going to be taxed. When I told them that in two years, they were going to see an increase in the cost of Parts B and D of Medicare payments, they were not very happy.

Tax-deferred accounts are a good way to begin saving for your retirement years. They are not always the best accounts to have when you retire. When you reach RMD age, your options to re-position assets are few. When you are in your 50s and 60s, your options are many.

The goal in retirement is to be in the lowest tax bracket you can achieve. That does not mean you have to give up the lifestyle you desire. It means understanding how much of all that money you saved belongs to the tax man and how much belongs to you. What is your plan to be in the lowest tax bracket when you retire? The new tax law can help you get there.

Call about my June 13th Seminar about Retirement & the New Tax Law at the Jeremy Ranch CC.

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