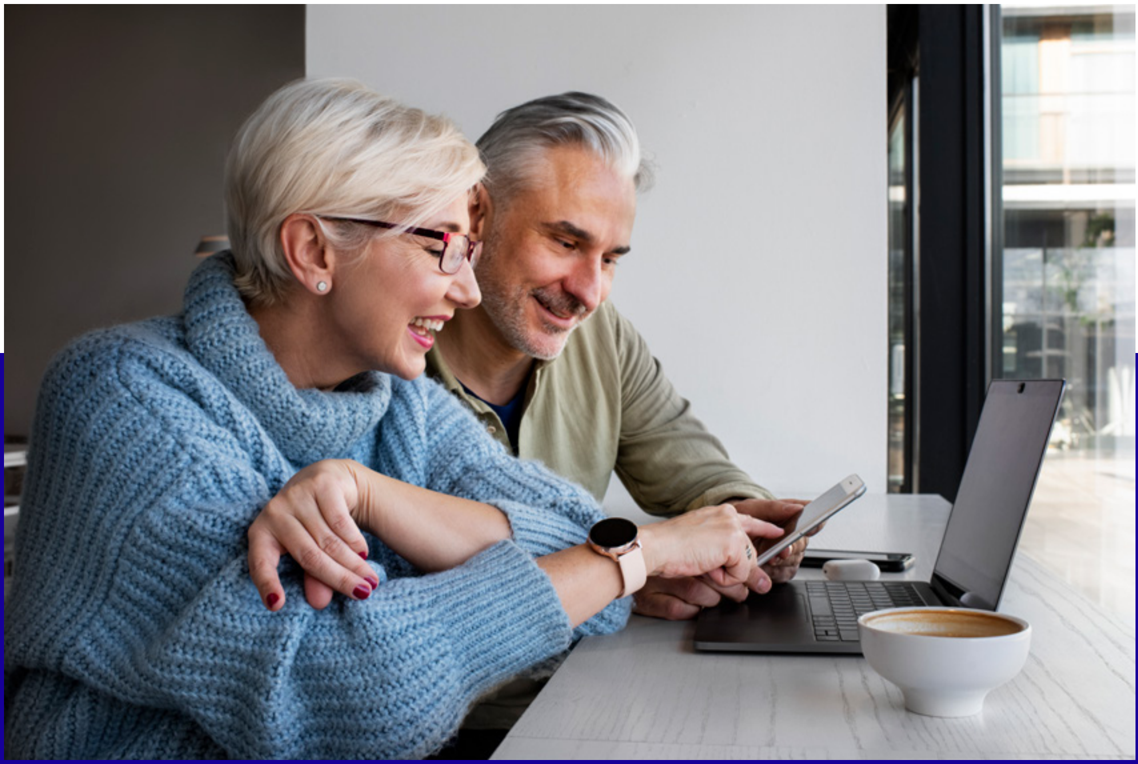
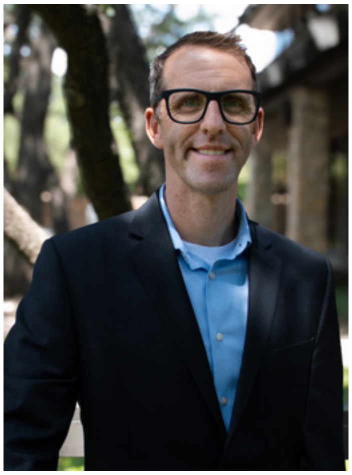
WORTH ASSET MANAGEMENT

# Top 10 Tax Planning Strategies to Keep More of Your Savings in Retirement



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Joe Dowdall is a CERTIFIED FINANCIAL PLANNER® professional at Worth Asset Management, a financial services company in Dallas, TX, that provides a wide range of wealth management services. With over 15 years in the financial services industry, Joe is a fiduciary who creates tax-focused financial plans for people nearing or in retirement—to help them build and safeguard their wealth through all life stages. He desires to offer clients the best financial planning experience while developing a friendship based on mutual respect. Joe's philosophy as a financial planner is rooted in his experience as a teacher, where he learned the importance of explaining complicated concepts in understandable terms. He's passionate about working with a select group of clients to help them achieve their financial goals with confidence and clarity.

Joe has an education degree from the State University of New York and an MBA in finance from Saint Joseph's University. In addition, he has obtained the CERTIFIED FINANCIAL PLANNER™, Retirement Income Certified Professional®, Chartered Retirement Planning Counselor℠, and Certified College Financial Consultant (CCFC) designations. Joe resides in Frisco, TX, with his wife, Leila, and their two daughters. During his free time, he enjoys traveling with family, exercising, and hiking the national parks. To learn more about Joe, connect with him on LinkedIn.

If you're considering retirement in the next 5 to 10 years, it's essential to be aware of the potential challenges you face. One of the biggest mistakes some make is not having a solid plan for your taxes. While many focus on their savings and investments, understanding the tax implications of your retirement income can significantly impact your overall financial health. Without proper planning, you might find yourself paying more than expected, potentially diminishing the hard-earned funds you've set aside for your retirement.

In this guide, we discuss 10 tax strategies for you to consider. While not every strategy will be appropriate for you, it's essential to assess and tailor them to create a comprehensive tax strategy based on your unique financial situation and retirement goals. If you need help putting that together, we'd be happy to help.

# Top 10 Tax Planning Strategies to Keep More of Your Savings

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# 1 Maximize Retirement Accounts

## What it Is

Retirement accounts, such as IRAs and 401(k)s, are specialized savings tools designed with tax advantages to support retirement preparation. These accounts can either offer immediate tax deductions when you contribute to them, tax-free growth, or even tax-free distributions, all depending on the type. The amount you can contribute to an IRA or 401(k) changes every year; check IRS.gov for current contribution limits. Maximizing these contributions allows you to utilize as many tax advantages as possible while building a nest egg for the future.

## How it Can Help You

- Offers potential tax deductions on your contributions
- Provides tax-deferred growth for your investments
- Allows for more tax-efficient wealth accumulation over time

## What You Need to Do

- **Maximize contributions:** If you have enough income and room in your budget, consider maxing out your tax-advantaged accounts up to the limit.
- **Diversify your portfolio:** Ensure you're not overly concentrated in a single asset class or stock. A well-diversified portfolio can potentially reduce risk and enhance returns.
- **Review your risk tolerance:** Especially as you near retirement, it's crucial to understand your risk tolerance and align your investments with it.

# 2 Review Asset Location

## What it Is

Asset location is about optimizing which investments are held in which types of accounts for tax purposes. It's distinct from asset allocation, which focuses on the mixture of investments you hold. The primary aim of asset location is to strategically place assets in taxable, tax-deferred, or tax-free accounts based on their tax efficiency, with the ultimate goal of improving returns after taxes.

For example, some funds you might want to invest in will be appropriate for taxable accounts, while other investments are better in tax-deferred accounts, with others best suited for tax-free accounts.

## How it Can Help You

- Potentially reduces unnecessary tax liabilities by not holding the wrong investments in the wrong account type
- With lower tax liabilities, potentially boosts after-tax investment returns over time
- Aligns investments with your overall financial goals

## What You Need to Do

- **Categorize assets:** List out all investments and whether they are tax-efficient or tax-inefficient.
- **Reallocate:** Determine the best location for each of the investments you would like to own. Consider holding tax-inefficient investments in a tax-advantaged account.
- **Assess regularly:** As our politicians change, so will our tax code. It's important to periodically review your asset location so that it's in line with current law.

# 3 Choose Tax-Efficient Investments

## What it Is

Tax-efficient investments are those crafted to produce the least taxable income, helping you keep more of your gains. These can include certain mutual funds, ETFs, and bonds. By focusing on these investments, retirees can manage and potentially reduce the tax drag on their portfolio, enhancing after-tax returns. Other investments you may want to own (like dividend-producing stocks or bonds) might be better suited in a tax-advantaged account, as discussed in the asset location section.

## How it Can Help You

- Reduces the tax drag on your investment returns
- Enhances overall portfolio performance after taxes

## What You Need to Do

- **Research:** Make informed selections of funds that have low turnover rates like index funds or ETFs.
- **Engage in proper asset location:** Confirm you have the right investments in the right types of accounts.
- **Avoid frequent trading:** Minimize buying and selling to reduce taxable events.

# 4 Consider a Roth Conversion

## What it Is

A Roth conversion involves transferring funds from a traditional IRA, which is funded with pre-tax dollars, to a Roth IRA that uses after-tax dollars. In addition to having more funds in a tax-free account like the Roth IRA, funds in the Roth are not subject to required minimum distributions (RMDs) like they are in a traditional IRA or 401(k). However, this strategy does trigger a taxable event, as any amount you convert will be taxed in the year of conversion. The key is to evaluate the long-term benefits versus the immediate tax liability you will incur.

## How it Can Help You

- When properly structured, provides tax-free withdrawals in retirement from Roth accounts
- Enables you to control your taxes
- Lessens the risk of taxes potentially increasing in the future
- Lowers the amount subject to RMDs in the future

## What You Need to Do

- **Evaluate tax brackets:** Assess if paying taxes now could benefit you later.
- **Plan conversion:** Possibly spread conversions over multiple years to manage the tax hit.
- **Calculate conversion amount:** Determine the best amount to convert without pushing you into too high of a tax bracket.

# 5 Coordinate Social Security Benefits With Other Income

## What it Is

Social Security is a key source of income for retirees, and it's important to think through this decision. Most people can claim their Social Security benefits between the age of 62 and 70. If you delay until age 70, you will receive the largest benefit amount possible, while claiming it at age 62 means your benefit amount will be smaller but you'll receive those benefits much earlier in your life.

Strategically taking Social Security benefits means assessing the best age and circumstance to start your claims. This requires balancing other income sources, like pensions or withdrawals from retirement accounts, to maximize Social Security benefits while minimizing potential tax hits.

## How it Can Help You

- Potentially maximizes your lifetime Social Security benefits
- Brings more awareness and planning for taxes on Social Security income
- Enhances the overall efficiency of retirement income streams

## What You Need to Do

- **Analyze income streams:** Review your various income sources and their respective tax implications.
- **Consider your timing:** Determine the best age for you (and your spouse) to claim your benefits. Make this decision in conjunction with your other income sources.
- **Understand tax implications:** Recognize how much of your Social Security might be taxable based on other income.
- **Be aware of earnings limits:** If you earn too much income while receiving Social Security benefits, your benefits may be reduced. Weigh the pros and cons of taking Social Security while you have earned income.

# 6 Determine Your Distribution Strategy

## What it Is

Creating a distribution strategy is vital for retirees as it dictates how they'll pull money from various accounts throughout retirement. This isn't just about how much to withdraw but also from which account and in what order. A well-thought-out strategy balances enjoying life today with the goal of making the money last throughout retirement.

## How it Can Help You

- Gives clarity on how much you can spend per year and per month
- Potentially reduces tax liabilities over your retirement
- Offers confidence that you have a well-thought-out plan

## What You Need to Do

- **Determine the proper order of distributions:** Do you want to pull from taxable, tax-deferred, or tax-free accounts first? After that, what's next?
- **Calculate annual needs:** Determine the amount you need each year to live comfortably, and how much you can reasonably withdraw from your investments.
- **Adjust for market conditions:** When times are good in the stock market, how much will you withdraw? When times are more volatile, how much will you withdraw? Come up with a strategy where you know if (and when) you will need to make changes on your withdrawals.

# 7 Review State Taxes for Retirees

## What it Is

Every state in the U.S. has different tax rules and structures, and these can vary significantly when it comes to retirees. Some states offer more favorable conditions by not taxing certain types of retirement income, including Social Security benefits and pensions. Others might have no income tax at all.

## How it Can Help You

- Offers a more accurate assessment of your tax liabilities
- Keeps your overall financial strategy optimized

## What You Need to Do

- **Research your state:** Identify if your state offers any tax breaks to retirees.
- **Plan relocation:** If you would like to leave your current state, research the tax laws in any new state you consider.
- **Understand sales and property taxes:** Lower income taxes might be offset by higher other taxes. Factor in the total tax burden.

# 8 Consider Charitable Gifting

## What it Is

Charitable gifting in retirement planning involves donating assets or funds to charitable organizations, both as a philanthropic gesture and as a strategic move for tax benefits. This can be done through direct donations, donor-advised funds, or qualified charitable distributions. By incorporating charitable giving in your financial plan, you can align your charitable goals with tax-saving strategies.

## How it Can Help You

- Achieves personal philanthropic goals while getting tax benefits
- Potentially bypasses capital gains tax by gifting appreciated assets
- Potentially increases your deductions and lowers your taxable income with cash donations
- Lowers your RMD amount by donating via qualified charitable distributions

## What You Need to Do

- Evaluate which charities and organizations you'd like to support.
- Determine which charitable gifting strategy is best for you and your family. Given the numerous choices, don't simply default to one without examining the others.
- Three popular choices:
    - **Qualified charitable distributions:** Send RMDs straight to charities through QCDs.
    - **Gift appreciated assets:** Donate assets that have gained value to reduce capital gains taxes.
    - **Establish a donor-advised fund:** Set up a fund for ongoing charitable contributions, offering a tax break up front.

# 9 Stay Updated With Changing Tax Law

## What it Is

Tax laws and regulations are frequently evolving, reflecting changes in economic conditions, political climates, and broader societal needs. For retirees, these changes can significantly impact financial planning. Staying informed about these updates helps you maximize opportunities and reduce potential pitfalls associated with changing tax laws.

## How it Can Help You

- Avoids unintended tax penalties or liabilities
- Seizes new opportunities for tax savings
- Keeps the overall financial strategy optimized for your situation and the tax laws on the books

## What You Need to Do

- **Partner with a professional:** Consult a financial planner who will help you develop a comprehensive financial plan that accounts for your tax situation.
- **Educate yourself:** Stay informed about any changing laws and how they might affect you.
- **Focus on what you can control:** While you may like or dislike certain tax laws (and the politicians who put them in place), focus less on them and more on what you can do to make the best financial choice.

# 10 Maximize and Leverage HSAs

## What it Is

Health savings accounts (HSAs) are tax-advantaged accounts designed to cover out-of-pocket medical expenses. When following all the rules, they allow for tax-deductible contributions, tax-free growth, and tax-free withdrawals for qualified medical expenses. While you can't contribute to an HSA once enrolled in Medicare, funds from an existing HSA can be utilized to cover Medicare expenses. However, you do need to be enrolled in a high-deductible health insurance plan to be HSA eligible, and those plans are not suitable for everyone.

## How it Can Help You

- **Tax deductions:** Contributions to HSAs reduce taxable income.
- **Tax-free growth:** Investments inside HSAs grow without incurring taxes.
- **Tax-free distributions:** Withdrawals from HSAs for qualified medical expenses are not taxed.

## What You Need to Do

- **Consider an HSA:** If you have the option to enroll in an HSA, carefully consider if you are comfortable with a high-deductible health insurance plan. If so, max out the HSA contribution if you have room in your budget.
- **Invest wisely within your HSA:** After you contribute to your HSA, you then need to invest those funds. Consider the allocation of assets within the HSA to match your risk tolerance and time horizon.
- **Stay updated on qualified expenses:** Regularly review the list of HSA-qualified medical expenses to maximize the tax-free distribution benefits for current and future healthcare needs.

## Bonus Strategy

# Have Your Advisory Team Work Together

Beyond consulting with a tax professional, you'll want to be sure your entire financial team is working together to provide cohesive oversight and guidance. This should include professionals like CPAs, financial advisors, investment advisors, and estate attorneys. Your finances don't exist in a bubble, and neither will your tax-minimization strategies. When your advisory team works together, strategies are easier to identify and execute, and proactive tax solutions become much easier to implement, reducing your tax bill—and your stress.

## Start Saving Today

Ready to take control of your taxes and reap the rewards of a tailored tax plan?

The best time to approach tax planning, especially when it comes to your retirement, is ideally years in advance. That way, you can make incremental changes on a year-to-year basis that put you closer to your retirement goals. Just like financial advice is highly personalized to your specific circumstances, so too is tax planning.

**If you'd like to schedule a complimentary call with me, reach out today!**

# Contact us today for a consultation on how we can help you put these strategies into action!

## Get Started Today!

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Contact me today for a consultation on how I can help you put these strategies into action!

Retirement can be a stressful time for many individuals, especially when it comes to finances. However, with proper planning and the guidance of a tax-focused financial advisor specializing in retirement, it's possible to enjoy the retirement of your dreams. Starting your retirement tax planning well before you actually retire is crucial to taking advantage of tax-deferral opportunities and tax-efficient investing. By reducing your tax burden, you can potentially increase your retirement savings and ensure a comfortable future. If you have any questions about taxes during retirement, schedule a "Get Acquainted Call" by calling me at 469-257-5074, or emailing me at joe@worthassetmgmt.com to get started. I am here to help you on your financial journey.

*The information provided is for general guidance and informational purposes only. Please consult with a qualified tax professional for advice tailored to your specific financial situation.*